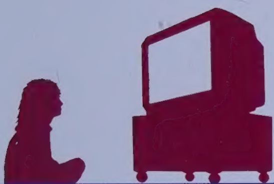
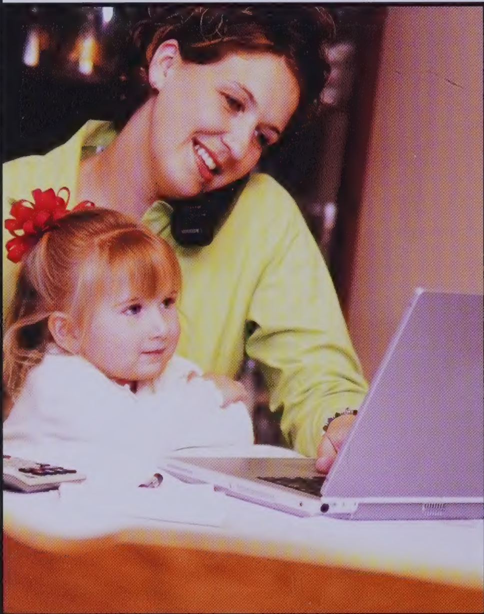


COGECO

A World of Communication

Annual Report 2005

A Connected World



A Force On the Move

AT COGECO, we are constantly striving in order to offer our customers the best of two worlds: communication services and electronic media.

Since its beginnings as a broadcaster in the Trois-Rivières area in 1957, COGECO has continued to grow through acquisitions and innovation. Our cable distribution subsidiary, Cogeco Cable Inc. (Cogeco Cable), is the fourth largest cable system operator in the country and the second in both Québec and Ontario. COGECO owns a 60% stake in the TQS television network as well as three French CBC television stations, with an indirect subsidiary of *Bell Globemédia inc.*, owning the remaining of 40%. It is also the sole owner of the RYTHME FM radio network and of radio station 93^3 in Québec City. COGECO became a public company in 1986 and is a driving force in the industry, influencing its surroundings and playing an important role in the changing face of communications.

Two worlds but one shared direction

The media world of Cogeco Radio-Télévision Inc. (CRTI) and the communication world of Cogeco Cable are closely linked and share a single objective: fulfill people's expectations in the communication and entertainment areas by providing high quality products and services, innovative programs along with constantly improving customer service. Thanks to a team of employees who are determined to keep offering the best of themselves, these two worlds come together.

Communication: a growing force

Cogeco Cable boasts strong growth gained from carefully executed acquisitions, consolidation with the support of the expertise and resources in place in the acquired businesses, innovative and competitive technologies and the ongoing pursuit of superior quality products and services. The number of customers and homes passed continues to grow, along with the number and quality of services offered.

Media: a clear positioning

COGECO's media sector consists first and foremost of TQS, "the black sheep" of French-language television; television that continually challenges conventions with boldness and imagination. As the years go by, our black sheep stands out more than ever. Our ever bolder programming is blazing a new path for general interest television in an environment that is fiercely competitive and constantly changing.

Our media sector also includes RYTHME FM, a radio network that has demonstrated sustained growth over the years. RYTHME FM is continuing to thrive and is increasingly becoming a habit with Quebecers across the province. Our flagship station in Montréal holds first place in listeners' hearts with the widest variety of music in the market far ahead of our closest competitors.

As for 93^3, it remains a unique medium with a distinctive sound. Its compelling formula combining "Opinions and Classic Rock" is winning more and more listeners in the Québec City area.

In Touch With the World

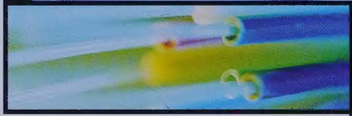
Cogeco Cable: a builder by trade

Since its first acquisition in 1972, Cogeco Cable has not stopped growing. Today we are able to offer our customers cutting-edge services combining quality, reliability, speed and choice, at fair prices, from Windsor, Ontario, to Sept-Îles, Québec.

Our diverse product offering includes analog, digital and high-definition (HD) television, video-on-demand, subscription video-on-demand and high-speed Internet (HSI), and has recently been expanded with the addition of digital telephony. Cable is a reliable, efficient, robust and, more importantly, scalable technology, and it is the main driver of COGECO's growth.

Since 1972, thanks to strong organic growth combined with the acquisition of nearly 35 companies, the number of revenue-generating units has grown from 25,000 to nearly 1.4 million, helping to make Cogeco Cable one of the largest players in the industry. Cogeco Cable's growth has been even more spectacular since 1987; over the past 18 years, the number of customers has doubled three times.

Cogeco Cable offers an easy route to entertainment, information and communication services through a comprehensive offer: television, HSI and digital telephony. One bill, one warm and courteous point of contact and a series of high quality products and services at an attractive price: this is what we offer to Cogeco Cable customers.



We keep on growing!

In the television distribution sector, the near future is teeming with innovation, both in terms of on-demand content and in continued expansion of the digital and HD offering.

Internet access will become even more secure, with the upcoming addition to the F-Secure products of an anti-spyware, an advertising pop-up window blocker function, and numerous improvements to our Internet security services.

Technology will continue adapting to new transmission methods and to customer's ever-increasing requirements with the DOCSIS 3.0 standard and switched digital broadcasting, among other innovations.

A media sector bubbling with activity!

TQS, more of a black sheep than ever

Our black sheep is moving even further along the path of boldness. With original and entertaining programs and strong and dynamic personalities, TQS has improved its avant-garde formula and is offering viewers a provocative and promising product. Rooted in a highly dynamic television landscape, TQS continues to stand out.

Now more than ever, news is the network's flagship product. Sometimes copied but never equalled, the approach adopted by the black sheep of news goes far beyond simply reading the stories. Besides commenting on them, TQS is the foremost French-language network in Québec to hold live, public debates on current events and to give its viewers an opportunity to join in.

The originality and boldness of TQS's new programs are startling: "Le Bachelor," "Loft Story II," "L'avocat et le diable," "Donnez au suivant," as well as standard favourites such as "Caféine," "Flash," "450 Chemin du golf," "3x rien," "SOS Beauté" and "Le Grand Journal". Nothing has been left to chance when it comes to making our viewers' television experience more fun. TQS is definitely not afraid of standing out from the crowd.

Fun on different wavelengths

COGECO provides fun radio, be it on its RYTHME FM network, or on its 93^3 station, in Québec City.

RYTHME FM, definitely the widest variety in music

RYTHME FM has consolidated its number 1 position in Montréal with listeners aged 12 and up, especially with women between 25 and 54, its target market. Many of RYTHME FM's programs enjoy top market share: "Les Midis de Véro," "La fièvre du samedi soir," "Les week-ends à Mario" on Saturdays and Sundays, and "Rythme au travail" on weekday mornings and afternoons.

As for the network's other stations in Trois-Rivières, Sherbrooke and Québec City, the RYTHME FM formula is expanding and gaining in popularity. By broadcasting the best network programs and adding some genuine local flavour during the peak listening times of day, RYTHME FM meets its listeners' expectations.

Station 93^3: "Opinions and Classic Rock" now more than ever

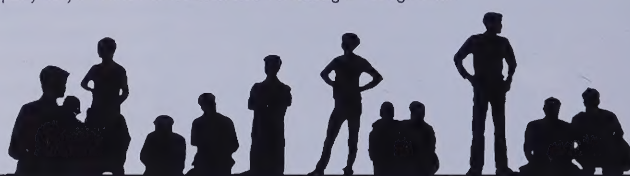
In a radio environment that is in full upheaval, finally there is a "classic rock" station that caters to men between the ages of 35 and 54. With its increasingly assertive personality, 93^3 is showing its mettle and reshaping radio in Québec City with strong programs such as the morning show, "Bouchard en parle," which amuses, titillates and sometimes disturbs, programs with strong statements throughout the day, full-music weekends and, of course, a growing audience.

Enthusiasm and Talent

Whether a company's growth is generated by its products, its services, its ability to innovate, its acquisitions or the technologies it provides, the driving force of its success always lies in the quality of its employees and in their commitment to serving customers. At COGECO, we combine enthusiasm, expertise and talent to make the best programs, products and services.

Whatever their field of work, our employees share the same desire to move the Company forward. They pool their expertise, their sense of innovation and their professionalism to understand and fulfill the expectations of customers, viewers, listeners and shareholders.

The Company's direction and its seamless operations are governed by a seasoned Board of Directors that bases its decisions on its experience and its knowledge of the community, so that the Company may continue to flourish while fulfilling its obligations.



A Good Corporate Citizen

At COGECO, we recognize that the Company's success and its sustainability are closely linked. The building blocks of our Company's growth consist of proven and regularly reviewed management practices, a code of ethics widely circulated within the Company and a partnership with the communities in which we operate.

Guiding our actions

Our code of ethics emphasizes the principles of good citizenship, transparency and integrity. These fundamental concepts are communicated to all employees and are part of the way in which everyone is called upon to contribute towards increasing the Company's value. COGECO's governance rules are based on a charter that defines the responsibilities of its Board of Directors and circumscribes those of its officers. They are thus better able to assess various issues and to manage in a sound and diligent manner, consistent with investors' and partners' demands for efficiency and integrity.

Sharing with our communities

Over the years, COGECO has enjoyed sustained growth. It shares this success by participating actively in community life. Whether through donations, sponsorships, free public service ads, the commitment of our community television or volunteer work by our employees and officers in support of a variety of projects or causes, COGECO is an active partner in community growth in various areas—health, education, the arts, social or community causes as needed—and is proud to make a contribution to community life.

Contents

COGECO is a diversified communications company with shares listed on the Toronto Stock Exchange, under the symbol CGO.SV. The Company strives to meet the communication needs of consumers and advertisers through cable distribution and broadcasting.

Through its cable subsidiary, Cogeco Cable Inc., COGECO provides 1,355,818 revenue generating units to the 1,448,733 households passed by its cable network in the territories it serves. It is the second largest cable system operator in both Ontario and Québec and the fourth largest in Canada. Cogeco Cable is evolving into one of Canada's major telecommunications companies, by building on its cable distribution base with the offering of analog, digital television, high-speed Internet and digital telephony services.

Through its Cogeco Radio-Television inc. subsidiary, COGECO is the controlling shareholder of the TQS network serving Québec's major markets in the French language through the operation of nine television stations. Cogeco Radio-Television also operates and wholly-owns RYTHME FM which has four radio stations throughout the Province of Québec, in Montréal, Québec City, and in the Mauricie and Eastern Townships regions, as well as radio-station 93³ in Québec City.

COGECO intends to remain at the forefront of the communications sector through sound investments in facilities, the offering of leading edge communications services while pursuing increased profitability.

GLOSSARY

Digital services: digital video services

DVR: digital video recorder (same as Personal Video Recorder or PVR)

HD: high-definition

HSI: high-speed Internet services

HSI Lite: high-speed Internet service with download speed of up to 300 Kbps

HSI Pro: high-speed Internet service with download speed of up to 10 Mbps

HSI Standard: high-speed Internet service with download speed of up to 6 Mbps

IP: Internet Protocol

Mbps: Megabits per second

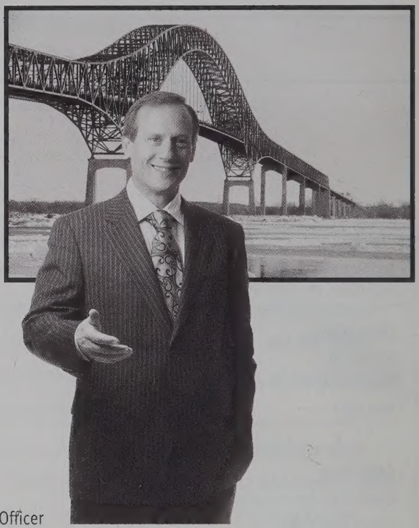
RGU (revenue-generating units): includes basic service, digital service, HSI service and digital telephony service customers

SVOD: subscription video-on-demand services

VOD: video-on-demand services

(in thousands of dollars, except rates of return and ratios, per share data and percentage)	2005 $	2004 $	Change %
Operations			
Revenue	**675,605**	648,101	4.2
Operating Income[1]	**233,843**	214,504	9.0
Net loss	**(19,813)**	(10,600)	86.9
Cash flow			
Cash flow from operations	**177,379**	155,411	14.1
Free Cash Flow[1]	**44,730**	47,177	(5.2)
Financial Condition			
Total assets	**1,876,975**	1,929,645	(2.7)
Indebtedness[2]	**715,744**	779,486	(8.2)
Shareholders' equity	**302,589**	325,047	(6.9)
Rates of Return and Ratios			
Operating Margin[1]	**34.6 %**	33.1 %	
Return on Equity[1]	**(6.3)%**	(3.2)%	
Indebtedness on Operating Income	**3.1**	3.6	
Interest coverage	**4.1**	3.6	
Per Share Data (basic)			
Net loss	**(1.21)**	(0.65)	86.2
Cash flow from operations	**10.80**	9.51	13.6
Weighted average number of outstanding shares (in thousands)	**16,420**	16,344	–

(1) The indicated terms are not defined under Canadian Generally Accepted Accounting Principles (GAAP) and may not be comparable to other measures presented by other companies. Refer to pages 13 and 14 of the Management Discussion and Analysis for a detailed description of non-GAAP measures.
(2) Indebtedness is defined as bank indebtedness plus long-term debt.



Louis
Audet
President and Chief Executive Officer

Message to Shareholders

Dear Friends:

The 2005 fiscal year has been one of consolidation for COGECO. The upward trend in our results is mainly due to the strong performance of our cable subsidiary, Cogeco Cable. Our position in this sector is solidifying and our financial performance continues to improve. In the media sector, Cogeco Radio-Télévision Inc. (CRTI) has taken steps that will ensure stronger performance in the years to come.

Key indicators improving

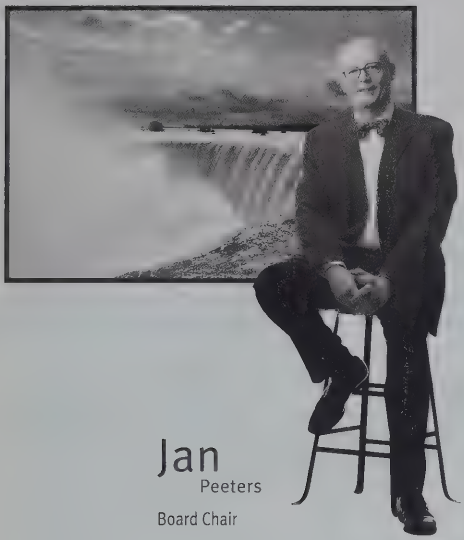
COGECO has generated Free Cash Flow of $44.7 million. This result is from a very strong performance in the cable sector mainly due to an increase in Operating Income and a decline in the financial expense. Excluding the reduction in the value of goodwill and other intangible assets for fiscal 2005 related to the television sector, the net income would have been $9.8 million. However, this one-time item has led us to report a net loss of $19.8 million at the end of the fiscal year.

Cogeco Cable: a growth engine

In 2005, Cogeco Cable maintained sustained growth by focusing on customer satisfaction. Our HSI and digital customer base is expanding quickly and has exceeded our expectations, with a growth of 15.9% and 22.5% respectively compared to 2004, reaching approximately 278,000 and 255,000 customers at the end of fiscal 2005. During fiscal year 2005, we have added many digital tiers, expanded the offer of VOD and HD channels, launched a free SVOD offer for our pay television customers, launched F-Secure security products for our Internet customers and expanded our Internet Lite service offering on a customer acquisition basis in Québec. During the fourth quarter, we launched digital telephony. This service gives our customers the best price/quality ratio thanks to an offer that is complete, easy to understand and competitive.

Cogeco Cable is reporting an increase in its revenue and Operating Income of 5.3% and 11.9% respectively, compared with fiscal 2004, to total $554.4 million and $227.5 million as at August 31, 2005. Free Cash Flow stands at $45.3 million, an increase of 4% compared to fiscal year 2004.

We are poised to maximize internal and external growth opportunities with a view to ensuring Cogeco Cable's continued expansion, in the interests of our shareholders.



Jan Peeters
Board Chair

Cogeco Radio-Télévision: movers and shakers

Our media subsidiary initiated and underwent many adjustments during the 2005 fiscal year. The environment has become more competitive than ever and is changing the nature of this sector, driving us to excel.

TQS: renewal and boldness

In television, a challenging start in the beginning of the year led us to reinforce control over our expenses to ensure a solid base for the future. The difficult environment that has prevailed for the past several quarters and for the foreseeable future forced us to reduce the value of our television assets in the second quarter. During the past few months, we have made additional investments in the programming line-ups for the Summer 2005 and the 2005-2006 year to solidify our position in the upcoming seasons. The new line-ups strengthen TQS's "black sheep" positioning, as popular as ever with television viewers, by focusing on news broadcasts with commentary, bold dramas and several tried-and-true favourites that have proven themselves over the past few seasons.

Radio: In Motion

In radio, the RYTHME FM network is leading in the Montréal market, according to the results of BBM surveys taken throughout the fiscal year. As for the other network stations, they are moving ahead and keeping pace with our expectations. Thanks to experienced on-air personalities, popular artists and a wide-ranging musical selection, RYTHME FM is gaining ground in all our markets.

Radio station 93^3 is poised to win back the Québec City market. The new "classic rock" sound is popular with listeners and the radio personalities are attracting audiences. Station results are shoring up and we are confident that 93^3 will fill a niche in the city's radio environment that has been ignored up to now.

Continuous process improvement

We are pursuing our continuous improvement efforts, in compliance with Bill 198 and its associated regulations. Improving our internal controls and processes is part of a strategic approach encompassing all of our subsidiaries and is aimed at ensuring that financial information is appropriately-disclosed, in keeping with the increasingly stringent demands of investors and shareholders. The resulting operational improvements will strengthen our market positioning and provide added value for our shareholders.

2006: the growth story continues

Our cable subsidiary, Cogeco Cable, continues to make strides, confidently yet prudently.

In the relatively near future, the migration of our IP platform toward the DOCSIS 3.0 standard will allow transmission speeds of up to 200 Mbps, and switched digital broadcasting will provide improved video service and better bandwidth utilization. As for our digital telephony, we will introduce numerous applications that until recently were in the realm of science fiction.

Over the next fiscal year, Cogeco Cable will continue its momentum and pursue its search for new growth opportunities. Better positioning based on targeted marketing will enable us to build market share. Launching new products and attracting new clientele, notably by expanding our telephony offering, should help increase our market penetration, and thus, ensuring our organic growth. Furthermore, for Cogeco Cable, opportunities for acquiring, at a fair price, cable networks with a critical mass of customers in attractive territories , in or outside Canada, are examined whenever they arise, always with a view to bolstering the company's growth and value. For Cogeco Cable, organic as well as external growth—keeping the Company's value and performance in mind—are at the heart of everything we do.

Over at Cogeco Radio-Télévision, the efforts and determination of our staff combined with customized programming for our audience show great potential.

In television, TQS's bold, new programming has positioned us for a return to profitability in the next few years. Programs such as "Le Bachelor," "Loft Story II," "Donnez au suivant," improved "Le Grand Journal" programming and debates on current events have all helped to firm up the black sheep positioning of our television network.

On the radio front, RYTHME FM continues to consolidate its position among listeners. The Montréal station, 105.7, sets the tone for the network and enables local stations to build on a solid foundation.

At 93^3, the new formula is proving successful and will continue to win new listeners. We will remain "tuned in" to better understand the needs of our target market of men aged 35 to 54.

Building together

COGECO continues to grow. We have put everything in place to make the 2006 fiscal year a success. The progress initiated in the two subsidiaries encourages us to be optimistic about the future.

COGECO employees are the strength of our business, through their dedication, passion, adaptability and determination. We recognize and greatly appreciate their contribution. COGECO is a growing company and, thanks to our employees, we can confidently look forward to a bright future.

We would like to acknowledge the tremendous work done by our Board of Directors. We are deeply grateful to the members of the Board for their enlightened and valuable leadership in the areas of corporate governance, results tracking and strategic planning.

One of the members on the Board of Directors will not be seeking a new mandate at the December 2005 Shareholder's Meeting.
Mr. Pierre Robitaille, a member of the Board since 2002, has earned our most sincere gratitude for his contributions to the Board of Directors, which include serving as a member of the Audit Committee.

Together, we will succeed in satisfying our audiences, our customers and our shareholders. The contribution and commitment of each and every member of the COGECO team will help us achieve our objectives.

Louis Audet
President and Chief Executive Officer

Jan Peeters
Board Chair

The following analysis discusses our operations, financial condition and outlook. This analysis should be read in conjunction with the Company's consolidated financial statements and the notes thereto prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which start on page 34. Throughout this discussion, all amounts are in Canadian dollars unless otherwise indicated. The Management's Discussion and Analysis (MD&A) is presented in the following sections:

FORWARD-LOOKING STATEMENTS

Certain statements in this annual report may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to our future outlook and anticipated events, our business, our operations, our financial performance, our financial condition or our results and, in some cases, can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding our future operating results and economic performance, our objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which we believe are reasonable as of the current date. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect. Forward looking-information is also subject to certain factors, including uncertainties and main risk factors, which are described in a separate section starting on p. 18 of this MD&A, that could cause actual results to differ materially from what we currently expect. These factors include technological changes, changes in market and competition, governmental or regulatory developments, general economic conditions, the development of new products and services, the enhancement of existing products and services, the introduction of competing products having technological or other advantages, many of which are beyond our control. Therefore, future events and results may vary significantly from what we currently foresee. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation (and expressly disclaim any such obligation) and do not undertake to update or alter this forward-looking information before the Company's next fiscal quarter.

Overview of the Business

COGECO is a diversified communications company operating in the cable distribution and media sectors.

Cogeco Cable, its 39.2%-owned subsidiary, is the second largest cable system operator in Ontario and Québec and ranks fourth in Canada in terms of the number of basic service customers. Cogeco Cable provides basic service to about 821,000 customers, digital services to about 255,000 customers and HSI services to about 278,000 customers. Cogeco Cable recently added digital telephony service to its offer and has nearly 2,500 customers including pending installations to that service.

Through its wholly-owned subsidiary, CRTI, COGECO holds a 60% interest in and operates the TQS network, six TQS television stations and three French CBC (Canadian Broadcasting Corporation) affiliated television stations, with an indirect subsidiary of *Bell Globemédia inc.* owning the remaining 40% interest. In addition, CRTI wholly owns and operates five radio stations, four of which are part of the RYTHME FM network across Québec and 93^3 in Québec City.

CORPORATE OBJECTIVES AND STRATEGIES

COGECO's objective is to maximize shareholder value by increasing profitability and by ensuring continued growth. The main strategies used to reach this objective in the cable sector focus on the following: (i) achieving sustained growth through the diversification of products and services as well as clientele; (ii) practising greater cost control as well as continuous improvement of its business processes and controls; and (iii) effectively managing capital.

The media sector focuses on continuous improvement of its program grids to increase its market share and therefore its profitability.

Cable Sector

Sustained Corporate Growth

Cogeco Cable's primary strategy is based on sustained corporate growth through continuing diversification of both its product offer and its clientele. Customer surveys, trend analysis and developments in the industry, together with constantly improving customer service, are the building blocks for improving its offer. Furthermore, the cable sector has a history of integrating many companies that work towards the same end of fulfilling consumers' telecommunications needs. Since 1972, when it first entered the cable industry, nearly 35 companies and hundreds of thousands of customers have joined Cogeco Cable.

Diversification and Improvement of Products and Services

The product and service offer is adjusted regularly to meet the demands of Cogeco Cable's various clientele. Accordingly, Cogeco Cable offers a line of telecommunications products, i.e. television, which provide access to analog, digital, HD, VOD and SVOD; the fastest HSI access in its markets and, just recently, digital telephony, a service that is comparable to conventional telephone service but costs less. The offer is supported by increasingly targeted marketing in order to reach ever more specific market segments. This strategy generates significant growth with the existing clientele.

Diversification of Clientele

By diversifying its offer, Cogeco Cable attracts new clientele. Better informed and more comfortable with technology, customers are seeking products and services that meet their specific needs. Cogeco Cable is on the lookout for new developments and product improvements in order to serve its customers better and to acquire new ones. The cable sector also remains open to any acquisition opportunities that may arise, in or outside Canada, provided that they bring in a significant number of customers at fair price to increase Cogeco Cable's growth and value.

Tight Cost Management

To maximize the Company's profitability and its value for shareholders, Cogeco Cable continues to exercise strict control over its spending. This strategy enables the cable sector to become more efficient while at the same time reducing its costs, and also making its offer even more attractive to customers. The resulting decrease in operating costs has a positive impact on the profit margin and on the return to shareholders.

Effective Capital Management

A capital committee, comprised of the President and Chief Executive Officer; the Vice President, Finance and Chief Financial Officer; the Vice President, Engineering and Development as well as the Vice President, Marketing, establishes Cogeco Cable's investment strategy and regularly examines the allocation of capital. Projects aligned with the strategy and providing acceptable risk-adjusted return on investment are thus effectively prioritized. Return on investment is assessed giving consideration to the expected additional revenue, Operating Income as well as cost savings. These analyses are carried out on a case-by-case basis and by individually affected cable systems, if required.

Media Sector

TQS: Renewal and Boldness

TQS's primary mission is to offer Québec viewers television whose boldness and originality make it conspicuously different television that dares to explore off the beaten track. The main objective at TQS is to win back market share in order to improve profitability. For this reason, TQS has, since the third quarter of fiscal 2005, made substantial investments in order to present new programming that should restore the network's profitability in the years to come. TQS programming is centered on forward-thinking, compelling and original formulas, and on powerful personalities. Reality television, docu-reality shows, news broadcasts with commentary and debates on current events as well as sports led by formidable commentators have defined the TQS trademark.

Radio: In Motion

RYTHME FM will focus on maintaining its top position in the Montréal market. As far as the network stations across Québec are concerned, RYTHME FM is striving to win these markets by focusing on network programming and on well-known local personalities who add a regional flavour to their broadcasts. In this way, RYTHME FM should succeed in strengthening its position in these markets.

The difficult period that 93^3 faced is now a thing of the past. The new 93^3 formula of "Opinions and Classic Rock" is proving successful and should continue to win new listeners, especially within its target audience of men aged 35 to 54.

Anticipated results of these strategies

Implementing the above strategies should yield improved profitability according to the following criteria. These criteria are described in greater detail in "Fiscal 2006 Financial Guidelines" on page 32:

- COGECO expects that its Operating Income will remain stable, compared to an increase of 9% in 2005. The expected lower growth rate should be attributable to the TQS network and the launch of digital telephony in the cable sector. TQS is working to reclaim market share by investing more in programming. Such investments will lead to a loss in Operating Income for the media sector in fiscal 2006 but are necessary for a return to profitability in the years to come.
- The Company estimates that it will generate Free Cash Flow between $25 million and $30 million, compared to $44.7 million in fiscal 2005. This decline should be attributable to both the media and cable sectors as explained above. After dividends are paid to shareholders, a significant portion of the Free Cash Flow will be applied to reduce Indebtedness.
- RGUs should grow by 8% to 10% compared to the 7% increase experienced in fiscal 2005 in the cable sector. As penetration of HSI increases, the demand for this offering should diminish. However, demand for digital services is expected to remain stable and demand for digital telephony should increase significantly.

CABLE NETWORKS

Digital and VOD services are available to 98% and 87% of households respectively, and 89% of households passed are served by a two-way cable plant. Cogeco Cable's fiber optic network extends over 8,100 kilometres and includes 79,200 kilometres of optical fiber. Cogeco Cable has deployed optical fiber to nodes serving clusters of typically 1,500 households, with many fibers per node in most cases, which allows the cable sector to further extend the fiber plant to smaller clusters of 500 households rapidly with relative ease. Node splitting leads to further improvement in the quality and reliability of services and allows for increasing traffic of two-way services such as HSI and VOD.

Cogeco Cable is using the DOCSIS 1.1 standard (Data Over Cable Service Interface Specifications) for its IP platform. DOCSIS 1.1 allows the prioritization of the signal packets that must be transmitted in real time, such as those of digital telephony service so as to ensure a continuous transmission flow. When appropriate, the DOCSIS 2.0 transmission mode can be activated to increase the speed and capacity of the return path, thus making it possible to provide very high speed symmetrical services, which are particularly well suited for commercial customer applications. It is also more robust, allowing for the use of portions of the return path spectrum that are normally not useable in a DOCSIS 1.1 mode. In addition, the cable industry, in collaboration with CableLabs, is in the process of developing a new standard, DOCSIS 3.0, compatible with the earlier versions and will make it possible to increase IP transmission speeds even more, up to 200 Mbps.

KEY PERFORMANCE INDICATORS

COGECO is dedicated to increasing shareholder value and consequently focuses on optimizing profitability while efficiently managing its use of capital without jeopardizing future growth. The following key performance indicators are closely monitored to ensure that business strategies and objectives are closely aligned with shareholder value creation. The key performance indicators are not measurements in accordance with Canadian GAAP and should not be considered an alternative to other measures of performance in accordance with GAAP. The Company's method of calculating key performance indicators may differ from other companies and, accordingly, these key performance indicators may not be comparable to similar measures presented by other companies.

Return on Equity

Return on Equity is defined as net income or loss divided by average shareholders' equity (computed on the basis of the beginning and ending balance for a given fiscal year). Return on Equity measures the Company's effectiveness in generating net income on a given capital base from our shareholders. COGECO's key goal in the coming years is to achieve a return on equity of 10%.

Operating Income Growth and Operating Margin

Operating Income is calculated as operating income before amortization and unusual items that are non-recurring revenue or expense items such as restructuring charges and gains or losses on asset disposals. Operating Margin is calculated by dividing Operating Income with revenue. Operating Income growth and Operating Margin are benchmarks commonly used in the telecommunications, and media industries, as they allow comparisons with companies that have different capital structures and are more current measures since they exclude the impact of historical investments in assets. Operating Income indicators assess COGECO's ability to seize growth opportunities in a cost effective manner, to finance its ongoing operations, and to service its debt. Operating Income is essentially a proxy for cash flow generated from operations excluding the impact of the capital structure chosen. Consequently, Operating Income is one of the key metrics used by the financial community to value the business and its financial strength.

Free Cash Flow

Free Cash Flow is defined as cash flow from operations less capital expenditures (including assets under capital lease that are disclosed in Note 13b) on page 58 which are not reflected in the statements of cash flow) and increase in deferred charges. The financial community also closely follows this indicator since it measures the business' ability to repay debt, distribute capital to its shareholders and finance its growth.

Cable Sector

Income Before Income Taxes Per Home Passed

Income before income taxes per home passed provides key insights on how Cogeco Cable maximizes the value of its franchises. Excluding income taxes from the profitability measure removes an often volatile and non-controllable factor. The "per home passed" concept measures the cable subsidiary's effectiveness in improving profitability in its franchised areas.

RGU Growth and Penetration of Service Offerings

RGU expansion is a critical driver of revenue growth and measures the success of the marketing strategy and the competitiveness of the service offering and pricing. Penetration statistics measure Cogeco Cable's market share. Cogeco Cable computes the penetration for basic services as a percentage of homes passed and, in the case of all other services, as a percentage of basic customers in the cable systems where the service is offered.

Media Sector

Market Share

Market share measures the sector's ability to generate revenue. In television, BBM and Nielsen audience ratings are closely monitored for each program on a daily basis, when available, to ensure that programming choices meet the audience's tastes and preferences. On the radio side, there are BBM diary surveys, which provide market share of hours tuned to each radio station in any given market.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to adopt accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and revenue and expenses during the reporting year. A summary of the Company's significant accounting policies is presented in Note 1 on page 38 of the consolidated financial statements. The following accounting policies were identified as critical to COGECO's business operations:

Impairment of long-lived assets

The valuation of all long-lived assets is subject to annual review for impairment or whenever significant events or changes in circumstances occur, to determine if carrying value can be recovered. In conducting impairment testing, the Company compares the carrying value to the sum of undiscounted cash flows. Future cash flows are based on internal forecasts and consequently, considerable management judgment is necessary to estimate future cash flows. Significant changes in assumptions could result in impairment of these assets. The Company's impairment test is performed as at August 31 of each fiscal year.

Impairment of customer base, broadcasting licenses and goodwill

The valuation of customer base, broadcasting licenses and goodwill are subject to review for impairment annually or whenever significant events or changes in circumstances occur, to determine if carrying value can be recovered. In conducting impairment testing, the Company compares the carrying value to the sum of discounted

cash flows. Future cash flows are based on internal forecasts and discounted by using a weighted average cost of capital rate. Considerable management judgment is necessary to estimate future cash flows. Significant changes in assumptions could result in impairment of these assets. The Company's impairment tests are performed as at August 31 of each fiscal year.

Income Taxes

The Company uses assumptions to estimate income tax expenses as well as future income tax liabilities. This process includes estimating the actual amount of income taxes payable and evaluating income tax loss carry-forwards and temporary differences as a result of differences between the value of the items reported for accounting and tax purposes. Realization of future income tax assets is dependant upon generating sufficient taxable income during the period in which temporary differences are deductible. The likelihood of realization of future income tax assets is evaluated by considering such factors as estimated future earnings based on internal forecasts, prudent and feasible tax planning strategies and reversal of temporary differences that result in future income tax liabilities. Future income tax assets and liabilities are calculated according to enacted or substantially enacted income tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Accordingly, changes in assumptions will directly impact the reported amount of income tax expenses.

Contingencies and Commitments

The Company is subject to various claims and contingencies related to lawsuits, taxes and commitments under contractual and other commercial obligations. COGECO's contractual and other commercial obligations primarily relate to network fees, operating lease agreements for use of transmission facilities, broadcasting rights and contributions to independent television production. COGECO recognizes liabilities for contingencies and commitments when a loss is probable and can be estimated. Significant changes in assumptions as to the likelihood and estimates of a loss could result in the recognition of an additional liability.

Allowance for Doubtful Accounts

The Company's revenue is earned mostly from individual customers in the cable sector and from business customers in the media sector. Accordingly, allowance for doubtful accounts is calculated examining such factors as the number of overdue days of the customer's balance owing as well as the customer's collection history with the Company. As a result, conditions causing fluctuations in the aging of customer accounts will directly impact the reported amount of bad debt expenses.

Amortization Policies and Useful Lives

COGECO amortizes fixed assets over the estimated useful lives of the items. In estimating useful lives, the Company considers such factors as life expectancy of the assets, changing technologies and cable and media industry trends. The Company reviews its useful lives estimates on a regular basis. If changes in the above-mentioned factors happen more quickly than anticipated, COGECO might have to shorten the estimated life of certain assets, which could result in a higher amortization expense in future periods.

Cable Sector

Revenue Recognition

Cogeco Cable considers revenue to be earned as services are rendered, provided that ultimate collection is reasonably assured. Cogeco Cable earns revenue from several sources. The recognition of revenue from the principal sources is as follows:

- Monthly fees from cable television and related services, from HSI access services and from digital telephony are recognized on a pro rata basis over the month.
- Since management considers the sale of home terminal devices as a single unit of accounting of a multiple element arrangement, equipment revenue is recorded upon activation of the service.
- Installation revenue is deferred and amortized over the average life of a customer's subscription, which is four years. Management considers that installation revenue is part of a multiple element arrangement and has no standalone value. Accordingly, installation revenue is deferred and amortized at the same pace as cable television, HSI services and digital telephony monthly fees are earned.
- Promotional offers are accounted for as deduction of revenue when customers are taking advantages of such offers.

Capitalization of Direct Labour and Overhead

As outlined in the recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to property, plant and equipment, capitalization of costs includes expenditures to acquire, construct, develop or improve an item of property, plant or equipment, and includes all costs directly attributable to those activities. The cost of an item includes direct construction or software development costs, such as materials and labour, and overhead costs directly attributable to the construction or software development activity. The cost to enhance the service potential of an item is considered an improvement and as a result is capitalized. Costs incurred in the maintenance of service potential are expensed.

Cogeco Cable capitalizes direct labour and direct overhead costs incurred to construct new assets, enhance existing assets and connect new customers. Although capitalization of financial expense is permitted for construction activities, it is Cogeco Cable's policy not to capitalize them.

Capitalization of Launch Costs, Costs to Acquire Customers and Subsidies on Equipment

Cogeco Cable incurs significant marketing costs during the launch of new services, such as new digital tiers, VOD, HSI and digital telephony services. These costs are capitalized and amortized over a period of five years, the estimated period during which these costs are to provide benefit. Our experience indicates that it takes approximately five years for the new services to reach a certain maturity level.

In addition, significant costs are incurred to reconnect customers and to attract new cable, HSI and digital telephony customers. These costs include material and labour costs incurred to reconnect customers as well as subsidies given to customers on the sale of home terminal devices. Reconnect costs are capitalized up to a maximum amount not exceeding the revenue generated by the reconnect activity. These costs are amortized over a period of four years, which represent the average life of a customer's subscription since no term is specified for which the customer will receive the services. The average life of a customer's subscription is reviewed annually and changes could have a significant impact on the amortization expense.

Media Sector

Revenue Recognition

CRTI's advertising revenue is recorded when the advertising airs on its radio or television stations. The media sector also occasionally enters into barter transactions under which goods and services are acquired in exchange for advertising. These goods and services are accounted for at the fair market value.

Broadcasting Rights

Broadcasting rights are contractual rights allowing limited broadcast of television programs or movies. These rights and their related liabilities are recorded at the time the agreement comes into effect and the content is ready for broadcast. Broadcasting rights are classified as short term or long term based on management's estimates of the broadcast period. The rights are amortized upon broadcast, over the term of the agreement based on the estimated number of showings, using an amortization method based on future expected revenue. Broadcasting rights are tested for impairment, annually or whenever significant events or changes in circumstances occur, to determine if the carrying value can be recovered.

Capitalization of start-up costs related to the implementation of new radio stations

Start-up costs include costs incurred to launch new radio stations, RYTHME FM in Québec City in August 2003 and RYTHME FM in Trois-Rivières and Sherbrooke during the fourth quarter of fiscal 2004, as well as operating losses before amortization incurred in the first year of their operation. These costs are recorded as deferred charges and amortized over a period of three years.

ADOPTION OF NEW ACCOUNTING STANDARDS

Fiscal 2004

Revenue Recognition

During fiscal 2004, the Company adopted the CICA's Emerging Issues Committee Abstracts 141 and 142 issued in December 2003, regarding the timing of revenue recognition and certain related costs and the classification of certain items such as revenue, expense or capitalized costs. Consequently, COGECO adopted the following changes in the cable sector:

- Installation revenue is now deferred and amortized over the average life of a customer's subscription, which is four years. Previously, this revenue was recognized immediately as it was considered a partial recovery of direct selling costs incurred. Upon billing, the portion of unearned revenue is now recorded as deferred and prepaid income.
- The costs to reconnect customers are now recorded as deferred charges up to a maximum amount not exceeding the revenue generated by the reconnect activity, which are included in installation revenue, and amortized over the average life of a customer's subscription, which is four years. Previously, these costs, which include materials, direct labour and certain overhead charges, were capitalized to fixed assets and generally amortized over a period of five years.
- Revenue from the sale of home terminal devices at a subsidized price, which were recorded as a partial recovery of costs, are now recorded as equipment revenue with an equal amount included in operating costs.
- The portion of advertising expense incurred to expand the digital and HSI customer base that used to be recorded as a deferred charge is now recorded as an operating cost.

As a result of the above changes, Operating Income was adjusted downward by $8 million in fiscal 2004. The adjustments related to the reversal of capitalized advertising expense and reconnection costs amounted to $3.7 million and $1.2 million in fiscal 2004, respectively. COGECO has decided to apply these changes retroactively to enhance the comparability of its financial disclosure. The changes, which impact only the cable sector and relate to revenue recognition, had the following impact on the financial results and cash flow of the Company for fiscal 2004 and financial position as at August 31, 2004:

Year ended August 31,	2004	
(in thousands of dollars, except per share data and percentages)	Before adoption $	After adoption $
Revenue	641,374	648,101
Operating Income	222,482	214,504
Operating Margin	34.7%	33.1%
Amortization	141,062	145,204
Income taxes	45,535	38,973
Non-controlling interest	(15,500)	(18,874)
Net loss	(8,416)	(10,600)
Basic and diluted net loss per share	(0.51)	(0.65)
Capital expenditures and increase in deferred charges	113,883	108,234
Free Cash Flow	49,506	47,177

As at August 31,	2004	
(in thousands of dollars)	Before adoption $	After adoption $
Fixed assets	768,031	716,444
Deferred charges	36,748	50,768
Deferred and prepaid income	16,240	32,607
Future income tax liabilities	215,152	196,379
Non-controlling interest	465,145	443,818
Retained earnings	223,022	209,188

Other Accounting Standards

Information on the adoption of other accounting standards during fiscal 2004, which did not have a significant impact on the financial statements of the Company, except for Amortization of long-term assets described in the "Fixed Charges" section on page 23 of this MD&A, is presented in note 1c) on page 38 of the consolidated financial statements.

Fiscal 2005

Asset Retirement Obligations

In March 2003, the CICA issued Handbook section 3110, *Asset Retirement Obligations*, which provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Some of the Company's subsidiaries' lease agreements contain provisions requiring the subsidiaries to restore facilities or remove equipment in the event that the lease agreement is not renewed. However, COGECO's subsidiaries expect to renew most of their lease agreements related to their business and, consequently, any liabilities related to the removal provisions on non-renewed leases, if any, are considered not significant to the consolidated financial statements.

Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities*, which defines Variable Interest Entities (VIE) as entities that have insufficient equity or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The standard provides guidance for determining when an entity is a VIE and which entity, if anyone, should consolidate the VIE. During fiscal 2005, the Company adopted this new accounting guideline and concluded that it has no significant impact on the consolidated financial statements.

Future accounting pronouncements

Financial Instruments, Hedges and Comprehensive Income
In January 2005, the CICA issued Handbook section 3855, *Financial Instruments – Recognition and Measurement*, Handbook section 3865, *Hedges* and Handbook section 1530, *Comprehensive Income*.

Section 3855 establishes standards for recognition and measurement of financial assets, financial liabilities and non-financial derivatives. The standard specifies when and to which amount a financial instrument is to be recorded on the balance sheet. Financial instruments are to be recorded at fair value in some cases, and at cost in others. The section also provides guidance for disclosure of gains and losses on financial instruments.

Section 3865 includes and replaces the guidance on hedging relationships that was previously contained in AcG-13, mostly those relating to the designation of hedging relationships and its documentation. The new standard modifies the guidance included in Section 1650, *Foreign Currency Translation*, specifying how to apply hedge accounting and which information has to be disclosed by the entity.

Section 1530 establishes standards for reporting and display of comprehensive income. Comprehensive income includes net income as well as all changes in equity during a period, from transactions and events from non-owner sources. Comprehensive income and its components should be presented in a financial statement with the same prominence as other financial statements.

These sections are to be applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company is currently evaluating the impact of these new standards.

CONTROLS AND PROCEDURES

The application of Bill 198 and its regulations represents an exercise in continuous improvement, which is leading the Company to formalize the processes and control measures that are already in place and to introduce new ones. COGECO has chosen to make this a strategic endeavour, which will result in operational improvements and better management.

The President and Chief Executive Officer as well as the Vice President, Finance and Chief Financial Officer together with management, after evaluating the effectiveness of the Company's disclosure controls and procedures as of August 31, 2005, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries are disclosed adequately. To that end, COGECO has instituted stricter policies and directives on information disclosure for both internal and external communications. A disclosure committee has been set up with the mandate of ensuring the reliability of corporate information that is disclosed to investors and to the public. The Company has already undertaken a process to review and improve its internal controls, enabling its officers to certify COGECO's compliance with Regulation 52-111.

UNCERTAINTIES AND MAIN RISKS FACTORS

This section outlines general as well as more specific risks to COGECO and its subsidiaries that could significantly affect the financial condition, operating results or business of the Company. It is not intended to cover all possible contingencies, nor is there any assurance that the risks outlined in this section will actually unfold as expected or have the anticipated consequences.

Like its cable subsidiary, the Company has adopted a continuous risk management process, which includes a quarterly assessment of risks and uncertainties under the oversight of the Audit Committee. As part of this process, the Company endeavours to identify any risks and uncertainties that are liable to have a major impact on the Company's financial situation, revenue or activities, and to mitigate them proactively where appropriate. This section presents the current results of this process and our risk assessment; it is not intended to describe all possible factors that might have some influence on the Company or its activities at any point in time, and the risks and uncertainties described herein may well materialize or evolve in a different way.

Risks pertaining to markets and to competition

Cable Sector

The broadband telecommunications environment in Ontario and Québec is highly competitive, with the exception of local telephone service, which has been opened up to competition but is still dominated to a very large extent by the incumbent telephone companies. The broadband telecommunications market is characterized by the existence of numerous competing land-based and satellite services operated by well established telecommunications providers that have substantial resources with which to support their activities. In addition, it is becoming increasingly common in the market to see bundled service offers designed to meet all of a household's communications, information and entertainment needs at a package rate for the entire bundle.

In Canada, competition between cable television networks within a given serving area has been permitted for over ten years, but the installation of competing broadband wireline networks to people's homes is still largely limited to the established cable and telephone companies. However, competition in the provision of broadband telecommunications services, bundled or otherwise, occurs not only between competitors who are equipped with their own telecommunications facilities but also with competitors who possess few or no facilities and who use the existing facilities of companies that do have them, subject to access conditions dictated by applicable regulations.

As far as competition between land-based and satellite systems is concerned, Cogeco Cable faces strong competition in its serving areas from two national satellite distribution undertakings, Star Choice and Bell ExpressVu (the latter is owned by BCE Inc., the largest integrated telecommunications company in Canada). Another BCE company, Telesat, has just successfully launched the Anik F1 direct-to-home satellite, whose capacity will be used primarily to increase the number of channels for Canadian direct-to-home satellite distribution services. Cogeco Cable also faces illicit competition from the unauthorized reception of direct-to-home satellite signals. Although satellite signal theft has become more difficult as a result of actions taken by the main companies concerned, the applicable laws and the penalties that are actually imposed for signal theft are still inadequate.

Combined offers of services delivered to the home and mobile services are becoming increasingly common across the entire broadband telecommunications market. Some mobile telephone services already carry audio and video content in addition to Internet, electronic messaging and telephone communications. Adding mobility to the services provided by Cogeco Cable constitutes an important challenge in the medium term. Cogeco Cable is also evaluating a number of solutions that might enable it to combine fixed and mobile telecommunications in one service offering, but it has yet to make a decision on the matter.

Cogeco Cable has learned to deal with this multi-faceted competition by taking advantage of growth in demand for digital services, HSI access and digital telephony with attractive offers that bundle these advanced services together. Management believes that the demand for these new services will continue to provide Cogeco Cable with worthwhile growth opportunities over the medium term, until the maturity point is reached.

So far, the size of the investments required to acquire customers for these services is leading the competitors who provide them to seek reasonable margins on retail prices. Although retail prices have remained relatively firm over the past fiscal year, it is still possible that Cogeco Cable may find itself facing attacks in the form of retail price cuts on the part of some competitors, which would put downward pressure on margins for the services targeted by those competitors. Therefore, Cogeco Cable continually strives to improve its cost structure in order to preserve sufficient leeway to deal with such an event.

Although they are less cyclical in nature than the products and services of many other spheres of economic activity, Cogeco Cable's services nevertheless do feel some effect from economic cycles. During economic downturns, the lower number of housing starts in the serving areas adds to the challenge of maintaining numbers of basic customers in a highly competitive market. A significant increase or cutback in household spending can also have an impact on the number of revenue-generating units sold, particularly the more expensive discretionary television services. Internet access and telephone services will probably be less sensitive to economic cycles.

Media Sector

In broadcasting, radio and television stations rely primarily on advertising markets for their revenue. Economic cycles usually have a substantial influence on growth for these markets: during a consumer spending expansion phase, advertiser demand tends to increase, whereas such demand tends to dip during phases of deceleration. This sector's revenue is typically subject to substantial seasonal variation from quarter to quarter. It is also a highly competitive sector. Audience changes can be sudden and substantial, particularly for radio stations, generating rapid consequences for airtime sales and the profit margin. In North America, in recent years, there has been a gradual erosion of the conventional television networks' audience and advertising revenue toward specialty programming stations, which are proliferating steadily. In the medium term, increasing distribution of programs over fixed and wireless telecommunications media could also add to the fragmentation of the sector's audiences and revenue.

Risks pertaining to technology

Cable Sector

The evolution of technologies for the distribution of all types of telecommunications services is continuing at an accelerated pace, impelled by the forces of competition and the enormous size of the global broadband telecommunications market moving towards convergence. To avoid being caught short by technological changes, the Company closely monitors developments in technologies used for the transmission, distribution, reception and storage of data for these services as well as their deployment by other cable companies and by various competing telecommunications companies, not only in its domestic market but also more generally, across North America and around the world. Technology watch and the response to challenges presented by technological change are carried out both within the Company and by various trade associations to which it belongs, in particular CableLabs.

Much effort has been made over the years to improve the performance of competitive distribution technologies via digital subscriber lines (DSL) over the telephone companies' conventional wireline networks. In fact, many incumbent telephone companies have already launched broadband video distribution services that use these technologies to compete with cable-based telecommunications services, in particular in Cogeco Cable's serving areas in Ontario and Québec. Data distribution over power lines has also improved. However, progress is occurring even faster in the distribution of a wide range of services, including audiovisual services, over wireless networks.

On the other hand, cable telecommunications also continue to benefit from major technological progress, particularly in the areas of modulation, digital compression, fractioning of optoelectronic links, multiplexing, HD distribution and switched video distribution. These developments lead us to believe that wired distribution over fiber and coaxial cable will be an efficient, reliable, economical and competitive distribution method for existing and future broadband telecommunications services for the foreseeable future. However, this prospect depends on Cogeco Cable's ability to make additional investments in a timely fashion in order to deploy the necessary technical improvements in its networks.

Growth in the penetration of HSI access of all types and the emergence of new, more sophisticated algorithms for audiovisual content, such as MPEG-4, will promote the increased distribution and consumption of movies and television programs on demand through an Internet connection. This trend opens up the possibility that the market for existing analog and digital audiovisual programming distribution services may become fragmented, especially for movies, special events and specialized or repertory programs. In the event of a significant migration of the audiovisual content offering to an IP platform, it may happen that the revenue and margins derived from HSI access services will not entirely outweigh the loss of revenue or reduction of margins derived from analog and digital video services.

Media Sector

This trend is also a challenge for the broadcasting sector, where activities are currently founded on the offering of programmed audiovisual content broadcast over the air and captured using conventional receivers that are not hooked up to the Internet. The sector has begun to make the transition to digital broadcasting, but the process is costly and remains incomplete. Here, TQS has completed the transition to digital for production and origination, but over-the-air digital and HD transmission have yet to come. CRTI will also have to deal with an expanded offering of subscription digital satellite radio services, but, for now, it is difficult to predict the impact such national services will have on local radio audiences. Technological change also affects viewing habits for advertisers' announcements on programmed services, as well as the structure of audiovisual content broadcasting rights.

Risks pertaining to regulation

Each of the Company's activities is subject to a more or less extensive regulatory framework, depending on the type of service involved. The risks result from the very nature of the rules that are in force, from their application, from their asymmetry depending on the distribution technology used, or from their future development, as the case may be. Canadian legislation governing broadcasting, radiocommunications, telecommunications, copyright and the protection of personal information are the main sources of relevant regulations. New federal regulatory policies currently under consideration on the area of telecommunications, copyright, lawful access to customers' personal information and control over spam may all have a substantial impact on the Company's activities and on the operating costs it will have to incur to comply with them.

Cable Sector

Provincial consumer protection laws also have a major impact on the way these activities are carried out. During the last fiscal year, Cogeco Cable was obliged to devote resources and review its sales and customer account management processes in order to comply with the increased requirements of regulations under the new Ontario law. Management believes that it has implemented the information and verification measures required by the regulations, but the new law nevertheless makes it easier for consumers to take legal action, either individually or collectively.

The regulations governing the cable distribution of video or audio services, particularly in analog mode but also in digital mode, are still very detailed and restrictive. Indeed, the current framework imposes numerous structural constraints on Canada's major cable companies, particularly regarding the use of the networks' distribution capacity, the choice of services that may be distributed, the distribution mode for each type of programming service, the wholesale price and other conditions of distribution contracts, the composition of basic service, the bundling of programming services, access to the sale of advertising or sponsorship messages, cross-promotion of the cable company's other services and financial contributions to support Canadian programming. The Canadian

Cable Telecommunications Association, of which Cogeco Cable is a member, is pursuing its efforts to obtain greater flexibility and to eliminate regulatory asymmetries, for the greater benefit of customers, but no significant changes will occur in the short term.

HSI access services are not regulated. Even though the Internet access market is already extremely dynamic and competitive, Cogeco Cable is nevertheless obliged to provide access to its networks to third-party Internet service providers who request it, according to terms established in an access tariff approved by the Canadian Radio-television and Telecommunications Commission (CRTC). This means that Cogeco Cable must accommodate several competitors on its networks in Ontario and Québec.

As far as telephone services are concerned, Cogeco Cable decided to launch a new digital telephony service in the last fiscal year. The CRTC has ruled that there are grounds for applying the same regulatory framework to the incumbent telephone companies' VoIP services until competition develops in the market. This ruling is being challenged on two fronts: in the federal cabinet and in the Federal Court of Appeal. Incidentally, the CRTC has initiated a proceeding to consider whether it should forbear from regulating telephone services that are still subject to regulatory control. The CRTC's decision on the criteria, conditions and timetable for forbearance on these services will not become known until later in the 2006 fiscal year.

Media Sector

A broadcasting license is required to operate television, radio and broadcasting distribution networks and stations in Canada, barring an exemption. The requirement helps keep competitors from entering the market, but carries with it major obligations. Among others, television and radio stations are respectively subject to a detailed regime of regulatory requirements that are designed to encourage the production and broadcasting of Canadian shows and music. In the context of the CHOI-FM case in Québec, the Federal Court of Appeal upheld the CRTC's power to not renew a broadcasting license in the event of a failure to comply with requirements that deal with such things as the content of programs the broadcaster puts on the air.

Risks pertaining to operating costs

Cable Sector

Cogeco Cable is continuing its efforts to mitigate the impact of cost of goods sold on Operating Margin growth. It is obliged to deal with increases in input costs which cannot always be entirely anticipated or controlled, either because of regulatory decisions or because of the power of certain suppliers of products or services. On this point, the outcome of negotiations concerning the wholesale fees payable to the main specialty or pay television channels whose contracts have expired or are due to expire, or for the fees payable to the major studios for movies for VOD service, is often fraught with uncertainty.

A new long-term agreement with Hydro One for the use of support structures in Ontario should be reached shortly. Cogeco Cable is also currently negotiating a new long-term agreement with Hydro-Québec its primary supplier of support structures in Québec.

Risks pertaining to information systems

More than ever, automated information systems constitute a vital component of the Company's business for its cable as well as its radio and television activities. The risks associated with information systems and with the application of information technologies are the subject of special attention as part of the evaluation of the Company's risks and the certification of internal controls over financial information.

Cable Sector

Cogeco Cable still uses different customer account management systems in Ontario and in Québec. The agreement for the use of the existing customer account management system in Ontario will expire in 2008. Therefore, Cogeco Cable must either negotiate a new agreement or find other solutions in the medium term.

Risks pertaining to disasters

The Company has a disaster recovery plan for dealing with risks of natural disaster, quarantine, power failures, terrorist acts, intrusions, computer hacking or data corruption. However, the emergency plans and procedures that are in place cannot guarantee that the effect of any possible disaster will be mitigated as planned. The Company is no longer insured against loss of data, and consequently relies on the data protection and recovery systems that it has put in place with third-party service providers.

Performance Highlights

CABLE SECTOR

Customer Statistics

		Net additions (losses) 2005		2004	% of Penetration[1] August 31,	
	August 31, 2005	**Actual**	Initial Guidance[2]	Actual	**2005**	2004
Revenue-generating units[3]	**1,355,818**	**83,919**	61,500–72,500	90,100	**NA**	NA
Basic service customers	**821,433**	**(2,422)**	0–2,500	3,198	**NA**	NA
HSI service customers[4]	**277,648**	**38,040**	32,000–37,000	40,999	**37.7**	33.4
Digital service customers	**255,289**	**46,853**	29,500–33,000	45,903	**31.7**	25.8
Digital service telephony customers	**1,448**	**1,448**	NA	NA	**NA**	NA
Digital terminals[5]	**303,884**	**63,813**	40,000–45,000	56,984	**37.7**	29.8

(1) As a percentage of basic service in areas served.
(2) According to fiscal 2004 annual report.
(3) Including basic digital, HSI and digital telephony service customers.
(4) The number of Internet service customers in fiscal 2004 has been restated to reflect the number of customers based on the billing dates, which are spread throughout the month, instead of the number of customers at the end of the fiscal year. This change produces a downward adjustment of approximately 5,400 customers. As a result, additions for fiscal 2004 have slightly changed. Customers subscribing only to Internet services amounted to 55,057 as at August 31, 2005 compared to 49,691 as at August 31, 2004.
(5) 69% of terminals were purchased by customers compared to 82% a year earlier.

RGU growth was greater than anticipated thanks to higher demand than expected for digital services and HSI and to the June 2005 launch of digital telephony.

The 22% increase in the number of digital service customers is the result of a broader range of services, for example, the addition of new digital and HD channels, improvement to the VOD offer, the launch of a free SVOD offer to pay television customers, in addition to the success of the attractive digital terminal rental program and the growing attraction of this technology for consumers. The increase in the number of HSI service customers was higher than initial projections, partly due to the addition of the F-Secure Internet security products (offered free to Regular and Pro service customers) and to the launch of HSI Lite on an acquisition basis in Québec. The number of basic service customers dipped slightly due to stronger competition.

During the fourth quarter of the fiscal year 2005, Cogeco Cable launched its digital telephony service to its HSI customers in the areas of Burlington, Oakville and Windsor in Ontario and in the areas of Trois-Rivières, Drummondville and St-Hyacinthe in Québec. In addition, in the first quarter of fiscal 2006, the service offer was extended to all residents of these areas and to those of the Kingston area, in Ontario, whether or not they were Cogeco Cable customers. By the end of fiscal 2005, the number of customers subscribing to this new service had reached 1,448 and pending installations were 1,029, exceeding management's expectations. The service will be extended to most of Cogeco Cable's major markets by the end of the 2006 fiscal year.

Financial Results and Cash Flow

Cogeco Cable achieved 5.3% revenue growth, slightly over its initial 4% to 5% target. This revenue growth is primarily the result of an increase in basic service rates and higher penetration rates of HSI and digital services. Operating Income rose by 11.9%, exceeding the initial objective of 8% to 9%. This result is attributable to higher revenue per basic service customer, cost controls and process improvement measures.

Financial expense went down by 3.9%, slightly lower than expected, as average Indebtedness was lower than anticipated. Amortization declined by 0.9% as expected, excluding the effect of a change in the useful lives of certain long-term assets during fiscal 2004 described in the "Fixed Charges" section on page 23.

Capital expenditures, including assets acquired under capital leases, and the increase in deferred charges amounted to $125.7 million, $11.7 million increase over the initial guidance. The decrease in deferred charges is close to what was expected and is mainly attributable to lower equipment subsidies, given that most new digital service customers chose to rent their terminals. The higher than expected capital expenditures (including assets acquired under capital leases) is primarily due to additional purchase of digital terminals to better support higher than expected take rate and also to increased upgrade and reconstruction activities. Free Cash Flow of $45.3 million was generated, reaching the lower end of the anticipated range. Cash flow from operations was about $9 million greater than anticipated and is attributable to higher-than-expected Operating Income and to financial expenses that were slightly lower than forecast.

MEDIA SECTOR

CRTI's revenue declined by 0.6% compared to an initial growth target of about 3%. Television revenue decreased by 3.7% due to a decline in TQS's audience ratings and to an advertising market that remains difficult for conventional television. However, radio revenue increased by 26.9% mainly due to improved ratings for the Montréal RYTHME FM station which ranks No. 1 in the Montréal market.

An Operating Margin of 5.6% was achieved, lower than the 9% to 10% target. The drop in profitability was mainly attributable to the television operations and to a lesser extent to the radio operations as a result of 93[3] and the launch of the Québec City radio station RYTHME FM. The 3.7% decline in TQS's revenue was partly offset by a 1.2% decline in television operating expenses as TQS reduced its programming expenditures in the first quarter but has increased them during the second semester to rebuild its market share.

Operating and Financial Results

OPERATING RESULTS

The Company's revenue totaled $675.6 million, an increase of $27.5 million or 4.2%. This growth resulted from an increase in revenue of $27.9 million, or 5.3% in the cable sector partly offset by a decline of $0.4 million, or 0.3% in the media sector.

Operating costs amounted to $441.8 million in fiscal 2005, compared to $433.6 million in fiscal 2004. With respect to Operating Income, it went from $214.5 million in fiscal 2004, to $233.8 million in fiscal 2005, an increase of 9%. The cable sector contributed to an increase of $24.3 million, partly offset by a decline of $3.7 million in the media sector.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

Subsequent to a viewership market share loss in conventional television combined with a shift in conventional television advertising towards specialty channels, impairment tests of goodwill and other intangible assets related to the television operation of the media business unit were performed at the end of the second quarter of fiscal 2005. The Company concluded that an impairment existed and consequently wrote-off the $27.9 million of goodwill and reduced the value of its television broadcasting licenses by $24.6 million. The impact of the impairment of goodwill and other intangible assets on the net income of fiscal 2005 is as follows:

Year ended August 31, 2005 (in thousands of dollars)	$
Impairment of goodwill and other intangible assets	52,531
Income taxes	3,270
Impairment losses net of related income taxes	49,261
Non-controlling interest	19,651
Impairment losses net of related income taxes and non-controlling interest	29,610

FIXED CHARGES

Years ended August 31, (in thousands of dollars except percentage)	**2005** $	2004 $	Change %
Amortization	**130,551**	145,204	(10.1)
Financial expense	**57,284**	59,578	(3.9)

Amortization amounted to $130.6 million during fiscal 2005 compared to $131.2 million in fiscal 2004, excluding the financial impact of a change in the useful lives of certain long-term cable assets described below. The lower amortization stems from the cable sector where several cable modems and digital terminals have been completely amortized.

Effective September 1, 2003, the estimated useful life of home terminal devices rented by Cogeco Cable's customers was revised downward since unit costs, converted into Canadian dollars, declined significantly during fiscal 2003. Considering the lower unit costs, it is now often more economical to replace rather than repair defective devices. Therefore, the estimated useful life of cable modems was revised from seven to three years and since the digital terminal unit cost has declined more gradually, their estimated useful life was revised from seven to five years. The change in the useful life of home terminal devices and certain other long-term cable assets resulted in an increase of $14 million in amortization expense in fiscal 2004.

Financial expense declined by $2.3 million as the level of Indebtedness in the cable sector was lower due to Free Cash Flow generated.

INCOME TAXES

Income taxes for fiscal 2005 amounted to $15.4 million compared to $39 million for fiscal 2004. Excluding a non-cash income tax adjustment of $3.3 million in fiscal 2005 for the impairment of goodwill and other intangible assets of the television operations and of $27.6 million in fiscal 2004 for the items described below, income taxes amounted to $18.7 million in fiscal 2005 compared to $11.4 million in fiscal 2004. The income tax increase was mainly attributable to the cable sector's growth in Operating Income.

In November 2003, the Ontario government announced that corporate income tax rates would not decline in the future but would instead rise to 14% effective January 1, 2004. Prior to this announcement, the tax rates were expected to decline from 11% in 2004 to 8% in 2007. As a result, a $32.5 million non-cash adjustment was recorded by the cable sector for future income tax liabilities in the first quarter of fiscal 2004. This amount was partly offset by a non-cash reduction of future income tax liabilities of $4.9 million during that same quarter. This reduction is related to the decline in the carrying value of home terminal devices and certain other long-term cable assets.

Current income taxes of $3.3 million in fiscal 2005 mainly relate to the large corporation tax, which is computed on the basis of the Company and its subsidiaries' capital base. Since COGECO's subsidiaries have accumulated non-capital income tax losses of about $105.4 million as at August 31, 2005, most of the income taxes arising from earnings are deferred.

NON-CONTROLLING INTEREST

The non-controlling interest represents approximately a 61% interest in Cogeco Cable's results and a 40% interest in TQS Inc. In fiscal 2005, the non-controlling interest included an adjustment of $19.7 million for the television's impairment of goodwill and other intangible assets.

NET LOSS

In fiscal 2005, the net loss amounted to $19.8 million, or $1.21 per share, compared to $10.6 million, or $0.65 per share, in fiscal 2004. The variances in net loss are essentially explained in the following table:

Years ended August 31, (in millions of dollars)	2005 $	2004 $
Net loss per financial statements	**(19.8)**	(10.6)
Adjustments for the following items:		
Change in the Ontario corporate income tax rate (1)	–	12.8
Amortization adjustment related to a change in useful lives of some cable assets (2)	–	3.6
Impairment of goodwill and other intangible assets (3)	**29.6**	–
Net income excluding above adjustments	**9.8**	5.8

(1) Reflects the $32.5 million non-cash adjustment recorded by the cable sector multiplied by COGECO's 39.3% ownership in Cogeco Cable. See section on "Income Taxes", on this page, for a detailed description of this adjustment.
(2) Reflects the $14 million amortization adjustment partly offset by a $4.9 million tax impact recorded by the cable sector multiplied by COGECO's 39.3% ownership in Cogeco Cable. See section on "Fixed Charges", on page 23, for a detailed description of this adjustment.
(3) See section on "Impairment of Goodwill and Other Intangible Assets", on page 23, for a detailed description of this adjustment.

During fiscal 2005 and 2004, COGECO did not award any stock options, and its subsidiary, Cogeco Cable, granted 140,766 stock options in fiscal 2005 (164,980 in fiscal 2004). The Company recorded compensation expense for options granted by its cable subsidiary on or after September 1, 2003. This expense totalled $484,000 in fiscal 2005 compared to $238,000 in fiscal 2004. As discussed in Note 10 on page 51, if compensation cost had been recognized using the fair-value-based method at the grant date for options granted between September 1, 2001 and August 31, 2003, COGECO's net loss would have been increased by $320,000 for each of fiscal 2005 and 2004. Under the TQS stock option plan, an amount of $162,000 has been recorded as an expense in fiscal 2005 and an amount of $212,000 has been recorded as a reduction of expense in fiscal 2004.

CABLE SECTOR

Years ended August 31, (in thousands of dollars, except percentages)	2005 $	2004 $	Change %
Revenue	**554,404**	526,480	5.3
Operating costs	**318,704**	315,208	1.1
Management Fees – COGECO Inc.	**8,179**	8,026	1.9
Operating Income	**227,521**	203,246	11.9
Operating Margin	**41.0%**	38.6%	

Revenue

Revenue rose by $27.9 million, or 5.3%, mainly due to increased penetration of HSI and digital services and to various rate increases, as discussed below:

- HSI service customer additions during fiscal 2004 and 2005 generated incremental revenue of approximately $17.6 million over fiscal 2004. The addition of about 38,000 new HSI service customers during fiscal 2005 contributed approximately $8.2 million to this growth and the addition of about 40,000 HSI service customers during the corresponding period in 2004 accounted for about $9.4 million.
- Various rate increases during fiscal 2004 and 2005 created incremental revenue of about $4.2 million as a result of:
  - Effective June 15, 2004 in Ontario and August 1, 2004 in Québec respectively, an average monthly rate increase of approximately $0.74 per basic analog service customer was established. An increase of $4 in the monthly digital basic rate was also implemented in Québec. In addition, the monthly rate for the pay television package has been raised by $3, and other limited selective tier service rate increases have been implemented in Ontario, effective June 15, 2004.
  - Monthly rate increases of at most $3 per customer and averaging $0.50 per basic service customer took effect on June 15, 2005 in Ontario and on August 1, 2005 in Québec. As a result of these increases, the basic monthly rate is now $24.99 in the large majority of the Ontario networks, and the number of different basic rates has dropped from 22 to 7, ranging essentially between $20 and $27.50 per month, in Québec. The monthly rate for certain bundle services has increased by $1 in Ontario, and other limited rate increases for selective tier services have been implemented in Québec.

In addition, new digital services, VOD and equipment rentals contributed $7.7 million to revenue growth.

The organic growth, detailed above, was offset by a $4.4 million drop in equipment sales revenue.

The improved penetration of HSI and digital services and the rate hikes helped push average monthly service revenue per basic service customer up from $52.27 in fiscal 2004 to $55.43 in fiscal 2005, an increase of 6%.

Operating Costs and Management Fees

Operating costs increased by $3.5 million, or 1.1%. The main cost variances are discussed below:

- Equipment cost of sales declined by $5.3 million as more customers decided to rent instead of purchasing their digital terminals. Furthermore, IP transport costs for HSI services and affiliation costs for television services declined despite an RGU growth of 6.6%. As a result, cost of sales as a percentage of revenue has declined.
- The rise in other operating costs is largely attributable to the 6.6% rise in RGU that led to greater customer care expenses and to an increase in administration expense related to the review and improvement of internal controls to fulfill the requirements of regulations 52-109 and 52-111. Furthermore, as Cogeco Cable significantly surpassed its Operating Income growth objectives for fiscal 2005, the provision for employee bonuses increased. Other operating costs as a percentage of service revenue remained relatively stable.

Management fees paid to COGECO Inc. represented 1.5% of revenue in fiscal 2005 and 2004. For fiscal 2006, these fees will be increased by 2.6% (indexed by the Consumer Price Index in Canada) pursuant to the management agreement in effect.

Operating Income

Operating Income improved by $24.3 million or 11.9% as a result of revenue growth, offset by a modest increase in operating costs. Cogeco Cable's Operating Margin continues to improve, rising from 38.6% in fiscal 2004 to 41% in fiscal 2005.

MEDIA SECTOR

Years ended August 31, (in thousands of dollars, except percentages)	2005 $	2004 $	Change %
Revenue	**121,386**	121,797	(0.3)
Operating costs	**114,587**	111,308	2.9
Operating Income	**6,799**	10,489	(35.2)
Operating Margin	**5.6%**	8.6%	

CRTI's revenue declined by $0.4 million, or 0.3% compared to 2004. Television revenue decreased by 3.7% due to a decline in TQS's audience ratings and to an advertising market that remains difficult for conventional television. However, radio revenue increased by 26.9% mainly due to improved ratings for the Montréal RYTHME FM station which ranks No. 1 in the Montréal market. Furthermore, revenue and operating expenses for the Québec City RYTHME FM station were capitalized in fiscal 2004 since it was a start up year unlike in fiscal 2005.

The $3.3 million, or 2.9%, increase in operating costs is related to the radio operations and mainly attributable to operating expenses for the Québec City RYTHME FM station that were no longer capitalized in fiscal 2005. Operating Income declined by $3.7 million or 35.2% mainly attributable to the television operations and to a lesser extent to the radio operations were the financial results of the newly launched RYTHME FM station in Québec City were no longer capitalized. The 3.7% decline in TQS's revenue was partly offset by a 1.2% decline in television operating expenses as TQS reduced its programming expenditures in the first quarter but has increased them during the second semester to rebuild its market share.

Cash Flow Analysis

Years ended August 31, (in thousands of dollars)	2005 $	2004 $
Operating activities		
Cash flow from operations	**177,379**	155,411
Net changes in non-cash operating items	**23,680**	1,797
	201,059	157,208
Investing activities[1]	**(130,585)**	(105,085)
Financing activities	**(70,474)**	(52,123)

(1) Excludes assets acquired under capital leases.

OPERATING ACTIVITIES

Cash flow from operations was greater than last year by $22 million, or 14.1%, as a result of the cable sector's growth in Operating Income and lower financial expense. The impact of changes in non-cash operating items amounted to a cash inflow of $23.7 million in fiscal 2005, compared $1.8 million in fiscal 2004. The higher cash inflow from non-cash operating items is mainly related to an increase in accounts payable and accrued liabilities in the cable sector as a result of the capital expenditure program completed late in fiscal 2005. On a per share basis, cash flow from operations increased from $9.51 in fiscal 2004 to $10.80 in fiscal 2005 as a result of improved Operating Income and lower financial expense in the cable sector.

INVESTING ACTIVITIES

Investing activities related to capital expenditures and deferred charges increased from $108.2 million in fiscal 2004 to $132.6 million in fiscal 2005. Of these amounts, assets acquired under capital leases amounted to $2 million in fiscal 2005 and $2.6 million in fiscal 2004.

Capital Expenditures

Capital expenditures, including assets acquired under capital leases, increased by $30.4 million and the main variances are attributable to the following factors:

- Expenditures associated with the network upgrade program rose by $13.2 million due to the acceleration of the program to expand bandwidth to 750 MHz and 550 MHz for the Ontario and Québec networks, respectively, and to improvements in network reliability. An increase in the number of households with access to two-way service was also a factor. The percentage of customers having access to two-way services increased from 87% as of August 31, 2004 to 89% as of August 31, 2005.
- The $16.5 million increase in customer premise equipment mainly results from a rise in expenditures related to digital terminals and to telephony equipment. The number of digital terminals that are subsequently leased to customers has increased as a result of an attractive rental program launched during the fourth quarter of fiscal 2004 and a greater number of terminals purchased at year-end.
- Overall capital expenditures in the media sector remained stable compared to last fiscal year.

During fiscal 2006, the Company intends to invest about $125 million in its capital expenditure program, with $119 million being directed toward the cable sector and the balance toward the media sector. The increased capital expenditures in the cable sector will stem mainly from a $11.5 million increase in expenditures related to digital telephony (compared to $4.8 million in fiscal 2005) and from a $4.5 million increase (excluding telephony expenditures) in support capital mainly for improvements in information systems. These increases should be partially offset by a $10.4 million decline in expenditures as a result of a greater number of digital terminals purchased at the end of fiscal year 2005.

In the coming years, capital expenditures and subsidies related to cable modems and digital terminals are expected to decrease as unit prices continue to decline and as such devices are increasingly integrated in Consumer Electronics products such as PCs, television sets and DVDs.

The cable network should benefit from numerous technology advancements thus reducing capital expenditures in general. Improvements in compression and multiplexing techniques will continue to occur, as they did significantly in the past few years, and will allow for more and more video signals to be transmitted within a given bandwidth without signal degradation. A good part of the increased bandwidth requirements, generated by growth in narrowcast digital services such as Internet and VOD, will be accommodated through further cost efficient node splitting. Future migration to more advanced DOCSIS standards will allow for the use of more robust modulation techniques in the return path as well as substantially higher transmission speeds. Most importantly, the gradual migration of cable systems to all-digital networks will allow operators to recuperate the bandwidth currently used for analog distribution and use it for digital signals distribution, including HD television signals. This migration to all-digital systems will take some time to complete and capacity upgrades will require 3 to 4 years. As a result, capacity upgrades will consume relatively less capital than it has been the case in the past.

Increase in Deferred Charges

Increase in deferred charges declined to $15.3 million in fiscal 2005 compared to $21.3 million in fiscal 2004. During fiscal 2005, a significant reduction in the increase in deferred charges was recorded, in light of the digital terminal rental program offered to customers since the fourth quarter of fiscal 2004. During fiscal 2006, the increase in deferred charges should climb due to an increase in reconnection costs and other deferred charges, partly related to digital telephony.

FREE CASH FLOW AND FINANCING ACTIVITIES

Free Cash Flow of $44.7 million was generated during fiscal 2005, a decline of $2.4 million over fiscal 2004 entirely attributable to the media sector.

In fiscal 2005, Indebtedness declined by $65.7 million essentially due to Free Cash Flow of $44.7 million and an increase in non-cash operating items of $23.7 million. In fiscal 2004, Indebtedness declined by $49.6 million essentially due to Free Cash Flow of $47.2 million and an increase in non-cash operating items of $1.8 million.

In fiscal 2005, the Company paid a dividend of $0.22 per share, an increase of $0.01 per share compared to fiscal 2004. During the fourth quarter, COGECO increased its quarterly dividend from $0.0525 to $0.0625 per subordinate and multiple voting shares due to the substantial improvement in the cable sector's results.

Financial Position

Since August 31, 2004, significant changes in the balance sheet include broadcasting licenses, goodwill, Indebtedness and shareholders' equity.

Indebtedness declined by $63.7 million mostly due to generated Free Cash Flow of $44.7 million and an increase of $23.7 million in non-cash operating items. As a result of the television's impairment of goodwill and other intangible assets recorded in the second quarter, the following balance sheet items were all adjusted downward:

Year ended August 31, 2005 (in thousands of dollars)	Adjustment $
Broadcasting licenses	24,606
Goodwill	27,925
Total assets	52,531
Future income taxes	3,270
Non-controlling interest	19,651
Shareholders' equity	29,610
Total liabilities and shareholders' equity	52,531

Capital Resources and Liquidity

CAPITAL STRUCTURE

The table below summarizes debt-related financial ratios over the last two fiscal years and the fiscal 2006 guidelines.

Years ended August 31,	2006 Guidelines[1]	**2005**	2004
Average cost of Indebtedness	7.6%	**7.4%**	7.2%
Fixed rate Indebtedness	95%	**97%**	89%
Average term: long-term debt	2.3 years	**3.3 years**	4.3 years
Indebtedness/ Shareholders' equity	2.2	**2.4**	2.4
Indebtedness/ Operating Income	3.0	**3.1**	3.6
Operating Income/ Financial expense	4.1	**4.1**	3.6

(1) See the "Fiscal 2006 Financial Guidelines" section on page 32 for further discussion.

The average cost of Indebtedness has increased due to the higher fixed-rate portion of Indebtedness, whose average interest rate is higher than that of the variable-rate Term Facilities. The average tenure of long-term debt will decline by one year as no new refinancings of debentures and notes are planned for fiscal 2006.

Financial leverage ratios should continue to improve in fiscal 2006 as management expects lower Indebtedness net of cash and cash equivalents in the cable sector. See "Fiscal 2006 Financial Guidelines" on page 32 for further details.

OUTSTANDING SHARE DATA

A description of COGECO's share data as at September 30, 2005 is presented in the table below. Additional details are provided in Note 10 on page 51.

	Number of shares/ options	Amount (in thousands of dollars)
Common Shares		
Multiple voting shares	1,849,900	12
Subordinate voting shares	14,600,104	116,155
Options to Purchase Subordinate Voting Shares		
Outstanding options	429,276	
Exercisable options	413,755	

FINANCING AND LIQUIDITY

The Company has a $40 million Term Facility and a $5 million operating line of credit extended by a group of financial institutions. TQS has a $10 million line of credit extended by one financial institution. These bank facilities are mainly used to answer the financial needs of the media sector. Cogeco Cable has a $270 million Term Facility and a $25 million operating line of credit. The credit facilities in the cable sector are not guaranteed by the Company. As at August 31, 2005, COGECO had drawn $22.5 million under its Term Facility and Cogeco Cable did not utilize its Term Facility. Cogeco Cable could have used all the committed amounts under its bank facilities and COGECO could have used about $31 million under its bank facilities without breaching any of their covenants under their financing agreements.

The Company continues to satisfy the various conditions stipulated in its financing agreements whilst being on schedule to meet interest and principal repayment obligations. Of all of the Company's debt instruments, the bank facilities usually set the most restrictive limitations on the Company's activities and operations. The most important restrictions cover maintaining certain financial ratios, authorised investments, disposal of assets, reimbursement of long-term debt and distributions to shareholders.

Transfer of funds from non wholly-owned subsidiaries to COGECO are subject to the subsidiaries' Board of Directors approval and may also be restricted under the terms and conditions of certain debt instruments. In accordance with applicable corporate and securities law, significant transfers of funds from Cogeco Cable may be subject to minority shareholders approval.

During the next five years, COGECO's required principal repayments on its long-term debt, excluding those under capital leases, amount to $536.3 million. Cogeco Cable's $125 million Second Secured Debentures will have to be repaid in fiscal 2007 while COGECO's Term Facility will have to be repaid in fiscal 2008. Cogeco Cable's $150 million Senior Secured Debentures and US$150 million Senior Secured Notes will have to be repaid in fiscal 2009 for a total amount of CDN$388.7 million (the Senior Secured Notes are converted into CDN$ using the exchange rate on the cross currency swap agreements).

In fiscal 2005, Dominion Bond Rating Service (DBRS) raised its outlook, while Standard & Poor's Ratings Services (S&P) confirmed its stable outlook on Cogeco Cable's ratings. DBRS has raised its outlook to positive on Cogeco Cable's Senior Secured Debentures and Notes' BB(high) rating and on the Second Secured Debentures' BB rating based on good growth in the number of HSI service customers in a competitive environment and on the use of Free Cash Flow to reduce the debt. S&P rates the Senior Secured Debentures and Notes and the Second Secured Debentures one notch higher than DBRS at BBB- and BB+, respectively. With continued growth in Free Cash Flow, Cogeco Cable is well positioned to reduce its financial leverage, which should at least maintain its debt ratings. Based on anticipated Free Cash Flow for fiscal 2006, refinancings are not expected before fiscal 2007.

FOREIGN EXCHANGE MANAGEMENT

The Company has established guidelines whereby currency swap agreements and foreign exchange forward contracts can be used to manage risks associated with fluctuations in exchange rates related to its US-dollar denominated long-term debt and its purchases of programming content and home terminal equipment denominated in US dollars. All such agreements and contracts are exclusively used for hedging purposes. In order to minimize the risk of counter-party default, COGECO completes transactions with financial institutions that carry a credit rating equal or superior to A+.

Cogeco Cable has entered into cross-currency swap agreements to fix the liability for interest and principal payments on its US$150 million Senior Secured Notes. These agreements have the effect of converting the US interest coupon rate of 6.83% per annum to an average Canadian dollar fixed interest rate of 7.254% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at CDN$1.5910. Amounts due under Cogeco Cable's US$150 million Senior Secured Notes Series A declined by CDN$18.9 million in fiscal 2005 due to the strengthening of the Canadian dollar. Since the Senior Secured Notes Series A are fully hedged, the decline is fully offset by an increase in deferred credit described in Note 9f) on page 50. This $60.6 million deferred credit represents the difference between the year-end exchange rate and the exchange rate on the cross-currency swap agreements, which determine the liability for interest and principal payments on the Senior Secured Notes Series A.

In June 2003, Cogeco Cable entered into foreign exchange forward contracts to hedge a portion of anticipated purchases in US dollars for fiscal 2003 and 2004. At August 31, 2004 and 2005, no forward contracts were outstanding.

COMMITMENTS AND GUARANTEES

COGECO and its subsidiaries' contractual obligations as at August 31, 2005 are shown in the table below:

Years ended August 31, (in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $	Thereafter $	Total $
Long-term debt[1]	65	125,018	22,513	388,657	—	175,000	711,253
Broadcasting rights	18,803	2,457	100	—	—	—	21,360
Significant benefits and licenses conditions	5,622	5,622	5,622	270	270	120	17,526
Capital lease obligations[2]	1,563	1,366	990	396	6	—	4,321
Operating leases and others	19,601	15,336	15,085	13,439	12,476	20,622	96,559
Other long-term obligations[3]							673,987
Total contractual obligations[4]	45,654	149,799	44,310	402,762	12,752	195,742	1,525,006

(1) Includes principal repayments and the impact of cross-currency swap agreements but excludes capital leases.
(2) Includes principal repayments and financial expense.
(3) Other long-term liabilities reflected on COGECO's balance sheet include the share in the partners' deficiency of a general partnership, deferred and prepaid income, broadcasting rights payable, pension plan liabilities and accrued employee benefits, future income tax liabilities and non-controlling interest. The nature of those obligations prevents the Company from estimating an annual breakdown.
(4) Annual breakdown excludes other long-term obligations.

As disclosed in the above table under "Significant benefits and licenses conditions", TQS is committed to paying an amount of $16.1 million over a 3-year period, mainly for independent production according to its broadcasting license conditions. Also, according to its radio licenses conditions, CRTI is committed to contributing for the benefit of Canadian artists, an amount of $1.5 million over a 6-year period.

In the normal course of business, the Company entered into agreements containing features that meet the criteria for a guarantee. In connection with the sale of businesses or assets, the Company's subsidiaries, Cogeco Cable and CRTI, have agreed to indemnify the purchaser against claims related to events, which occurred prior to the sale. Under the terms of the Senior Secured Notes and the Second Secured Debentures, Cogeco Cable has agreed to indemnify the other parties against changes in regulation relative to withholding taxes. The nature of the indemnification agreements prevents the Company from estimating the maximum potential liability it could be required to pay. As at August 31, 2005, no liability has been recorded associated with these indemnifications.

CRTI and its subsidiary, TQS Inc., have guaranteed the credit facility of a general partnership, Canal Indigo, up to a maximum amount of $1 million. As at August 31, 2005, no liability has been recorded associated with this loan guarantee, except for the share in the partners' deficiency of a general partnership for an amount of $648,000 ($180,000 in 2004). CRTI has granted moveable hypothecs in favour of its lessors on broadcasting and production equipments for a value of $900,000.

CRTI and its subsidiary, TQS Inc., indemnify certain of their on air hosts, against charges, costs and expenses as a result of any lawsuit, resulting from judicial or administrative proceeds in which they are named as defending party and arising from the performance of their service. The claims covered by such indemnification are subject to statutory or other legal limitation period. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements. The Company has purchased employees' and contractual's liability insurance with a deductible per loss. As at August 31, 2005, no liability has been recorded associated with these indemnifications.

Supplementary information on guarantees is presented in Note 15 on page 60.

Three-Year Annual and Quarterly Financial Highlights

THREE-YEAR FINANCIAL HIGHLIGHTS

The 2003 financial highlights were restated to reflect the impact of the adoption of new accounting standards implemented in 2004 regarding the timing of revenue recognition and certain related costs and the classification of certain items such as revenue, expense or capitalized costs. See the "Adoption of New Accounting Standards – Revenue Recognition" section on page 16 for a detailed description of these new accounting standards.

Years ended August 31, (in thousands of dollars, except per share data)	**2005** $	2004 $	2003 (restated) $
Revenue	**675,605**	648,101	613,675
Operating Income	**233,843**	214,504	195,362
Net income (loss)	**(19,813)**	(10,600)	6,751
Free Cash Flow	**44,730**	47,177	12,365
Per share data			
Net income (loss)			
Basic	**(1.21)**	(0.65)	0.42
Diluted	**(1.21)**	(0.65)	0.41
Dividend[1]	**0.22**	0.21	0.21
Total assets	**1,876,975**	1,929,645	1,974,660
Long-term liabilities	**1,387,726**	1,432,819	1,459,070

[1] Per multiple and subordinate voting share.

QUARTERLY FINANCIAL HIGHLIGHTS (UNAUDITED)

	Fiscal 2005				Fiscal 2004			
Quarters ended[1] (in thousands of dollars, except percentages and per share data)	**Nov. 30** $	**Feb. 28** $	**May 31** $	**Aug. 31** $	Nov. 30 (restated) $	Feb. 29 (restated) $	May 31 $	Aug. 31 $
Revenue								
Cable	**135,766**	**138,389**	**140,071**	**140,178**	129,489	131,574	132,364	133,053
Media	**35,690**	**28,222**	**33,392**	**24,082**	37,424	26,570	36,160	21,643
Head office and eliminations	**(45)**	**(45)**	**(45)**	**(50)**	–	–	(132)	(44)
	171,411	**166,566**	**173,418**	**164,210**	166,913	158,144	168,392	154,652
Operating Income (Loss)								
Cable	**53,194**	**55,297**	**58,310**	**60,720**	47,214	50,413	51,329	54,290
Media	**4,834**	**(1,112)**	**4,765**	**(1,688)**	2,413	(2,030)	7,398	2,708
Head office and eliminations	**900**	**431**	**739**	**(2,547)**	587	638	680	(1,136)
	58,928	**54,616**	**63,814**	**56,485**	50,214	49,021	59,407	55,862
Operating Margin								
Cable	**39.2 %**	**40.0 %**	**41.6 %**	**43.3 %**	36.5 %	38.3 %	38.8 %	40.8 %
Media	**13.5 %**	**(3.9) %**	**14.3 %**	**(7.0) %**	6.4 %	(7.6) %	20.5 %	12.5 %
Consolidated	**34.4 %**	**32.8 %**	**36.8 %**	**34.4 %**	30.1 %	31.0 %	35.3 %	36.1 %
Income (Loss) before income taxes and other items[2]	**11,072**	**(45,535)**	**16,590**	**11,350**	(9,550)	202	11,271	7,799
Net income (loss)	**3,117**	**(28,524)**	**4,964**	**630**	(15,391)	(1,142)	3,816	2,117
Cash flow from operations	**44,503**	**40,962**	**48,699**	**43,215**	34,421	33,853	44,127	43,010
Net income (loss) per share								
Basic and diluted	**0.19**	**(1.74)**	**0.30**	**0.04**	(0.94)	(0.07)	0.23	0.13

[1] The addition of quarterly information may not correspond to the annual total given rounding.
[2] Income (loss) before income taxes, non-controlling interest, share in the loss of a general partnership and loss on dilution resulting from shares issued by a subsidiary.

Seasonal Variations

Cogeco Cable's operating results are not generally subject to material seasonal fluctuations. However, the loss in basic service customers is usually greater, and the addition of HSI service customers is generally lower in the third quarter, mainly because students leave their campus at the end of the school year. Cogeco Cable offers its services in several university and college towns such as Kingston, Windsor, St.Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski. Furthermore, the fourth quarter's Operating Margin is usually higher as lower or no management fees are paid to COGECO Inc. Under the management agreement, Cogeco Cable pays a fee equal to 2% of its total revenue subject to a maximum amount. Since the maximum amount has been reached early in the fourth quarter of fiscal 2004 and late in the third quarter of fiscal 2005, Cogeco Cable has paid less or no management fees in the fourth quarters.

However, the media sector's operating results may be subject to significant seasonal variations. Advertising revenue depends on audience ratings and the market for conventional radio and television advertising expenditures in the Province of Québec. Audience ratings may vary due to a number of factors, including on-air personalities, programming content and promotional activities. Advertising level may also vary due to many factors, including general economic and consumer retail market conditions and cycles. Advertising sales, mainly national advertising, are normally weaker in the second and fourth quarters and, accordingly, the Operating Margin is generally lower.

Financial Results

Cogeco Cable's revenue has consistently grown over the last eight quarters mainly as a result of improved HSI services penetration and rate increases. Furthermore, Cogeco Cable's focus on improving its Operating Margin has resulted in that metric increasing every quarter except for the first quarter of fiscal 2004 because management fees paid to COGECO Inc. are higher in the first quarter compared to the fourth quarter as discussed above.

CRTI's revenue and Operating Income are usually weaker in the second and fourth quarters due to the seasonal factors explained above. Consequently, COGECO's revenue, Operating Income and net income are usually lower in the second and fourth quarters. The large net loss of COGECO in the first quarter of fiscal 2004 was attributable to COGECO's 39.3% share of the cable sector's non-cash adjustments for amortization and income taxes totalling $16.4 million. Those non-cash adjustments are discussed in the "Fixed Charges" and "Income Taxes" sections on pages 23 and 24. The large net loss of COGECO in the second quarter of fiscal 2005 was attributable to COGECO's 60% share of the television's impairment of goodwill and other intangible assets amounting to $29.6 million. This impairement is discussed in the "Impairment of Goodwill and Other Intangible Assets" section on page 23.

2005 vs 2004 Fourth Quarter Operating Results

Revenue rose by $9.6 million, or 6.2% compared to the same period last year. Cable revenue, driven by improved HSI access penetration as well as rate hikes, went up by $7.1 million or 5.4%. See the "Cable Sector–Revenue" section on page 25 for further discussion on the rate increases. Media revenue increased by $2.4 million or 11.3%.

Operating Income increased by 1.1% compared to the same period last year. The cable sector contributed to an increase of $6.4 million and the media sector to a decline of $4.4 million. In the cable sector, operating costs (excluding management fees paid to COGECO) as a percentage of revenue was lower mainly due to lower cost of sales (including equipment sold to customers, network fees and IP transport costs for HSI services) despite a 6.6% year-over-year rise in RGUs. Cogeco Cable's focus on improving its Operating Margin has resulted in the margin going up from 40.8% to 43.3%. The decline in the media sector is mainly attributable to increased television programming expenses to create positive momentum for the critical fall season and the following ones which should carry tangible results in 2007.

Net income amounted to $0.6 million, or $0.04 per share, compared to $2.1 million, or $0.13 per share, for the same period in 2004. This decline is due to a loss in Operating Income in the media sector.

Cash flow from operations increased by $0.2 million or 0.5% mainly due to Operating Income growth in the cable sector partially offset by the loss in Operating Income in the media sector. Investing activities related to capital expenditures and deferred charges, including assets acquired under capital leases, increased from $36.8 million to $49.4 million, mainly attributable to the cable sector. Negative Free Cash Flow of $6.1 million was recorded, a decline of $12.3 million mainly as a result of the Operating Income loss in the media sector combined to an increase of $11.6 million in capital expenditures and deferred charges in the cable sector.

Indebtedness declined by $41.8 million, essentially due to an increase in non-cash operating items of $50 million offset by a negative Free Cash Flow of $6.1 million.

Fiscal 2006 Financial Guidelines

CABLE SECTOR

Cogeco Cable will strive to expand its basic service customer base through continued effective marketing, a competitive product offering and superior customer service. However, the strength of the competition in the regions served by Cogeco Cable could partly compromise the attainment of this objective. As penetration of HSI services increases, growth in that service should level off. However, growth in digital services should remain relatively stable. Based on the current competitive environment and demand, the cable sector anticipates to add up to 3,000 basic service customers, 32,000 to 37,000 HSI service customers, 60,000 to 65,000 digital terminals and 32,000 to 37,000 digital telephony service customers by August 31, 2006.

Cogeco Cable expects to achieve revenue growth between 6% and 7%. About 45% and 40% of revenue growth should stem from the increase in penetration of HSI services in fiscal 2005 and 2006 and the launch of digital telephony respectively. The balance should stem mostly from rate increases implemented in June and August and from wider penetration of digital services. The demand for HSI services will likely slow down but should be compensated by increased demand for digital telephony services.

Revenue increase should contribute to Operating Income growth of approximately 3% to 4%. The Operating Margin should decline compared to fiscal 2005, to about 40%, due to the launch of digital telephony service in most of Cogeco Cable's major markets. The digital telephony service will contribute to a $4 million decline in Operating Income.

Cogeco Cable expects amortization of fixed assets and deferred charges to decrease by $10 million mainly due to a decline in the amortization of equipment subsidies, digital terminals and cable modems.

Capital expenditures and deferred charges will increase compared to fiscal 2005, primarily as a result of an increase of approximately $18.7 million related to digital telephony (compared to an amount of $5.3 million in fiscal 2005) and from a $4.5 million increase (excluding telephony expenditures) in support capital mainly for improvements in information systems. These increases should be partially offset by a $10.4 million decline in capital expenditures as a result of a greater number of digital terminals purchased at the end of fiscal year 2005.

Cash flow from operations should finance capital expenditures and deferred charges planned at $140 million. Free Cash Flow in the order of $35 to $40 million should be generated, a decline of approximately $8 million compared to fiscal 2005 mainly attributable to the launch of digital telephony in the majority of Cogeco Cable's major markets during fiscal year 2006. Excluding digital telephony, Cogeco Cable's Free Cash Flow should have increased by $15 million compared to fiscal 2005.

MEDIA SECTOR

The media sector expects to achieve revenue growth of about 3%, attributable to the radio operations, and a decline in Operating Income of approximately $9 million, attributable to television activities.

Given that advertisers are increasingly turning towards specialty channels rather than conventional television, conventional television broadcasters have increased significantly their television programming budgets. Management anticipates that television revenue will stabilize. TQS will invest more in its programming to strengthen its black sheep image, particularly in dramatic and reality show productions, in an effort to boost its audience ratings. This additional investment will result in negative Operating Income, but is necessary to ensure the future profitability of TQS.

Radio operations should benefit from the favourable BBM ratings recorded in fiscal 2005 and from the deployment of the RYTHME FM network. Consequently, the Operating Income should improve significantly. The financial results of the RYTHME FM radio stations in Sherbrooke and Trois-Rivières, which were launched at the end of the 2004 fiscal year, will no longer be capitalized as start-up activities in the 2006 fiscal year.

Management expects that amortization will increase by $2 million and capital expenditures and deferred charges are planned at $5 million to $6 million.

CONSOLIDATED FINANCIAL GUIDELINES

A significant portion of Free Cash Flow generated by the cable sector will be applied to reduce Indebtedness while improving the Company's leverage ratios and the balance will be used for distributions to shareholders. See the section "Capital Structure" on page 27 for leverage ratio guidelines. Financial expense should remain stable. The cable sector will contribute to improved profitability and Free Cash Flow, leading to an expected net income of about $10 million and Free Cash Flow of $25 million to $30 million.

Additional Information

This MD&A was prepared on November 7, 2005. Additional information relating to the Company, including its Annual Information Form, is available on the SEDAR Web site at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY

Related to the Consolidated Financial Statements

The consolidated financial statements of COGECO Inc. and the financial information contained in this annual report are the responsibility of management. The financial statements include amounts determined by management based on estimates which in their opinion are reasonable and fair. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. Operating and financial information used elsewhere in the annual report is consistent with that in the financial statements.

In fulfilling its responsibilities, management of COGECO Inc. and its subsidiaries have developed and continue to improve administrative and accounting systems in order to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and maintains internal accounting controls to ensure that financial records are reliable for preparing the financial statements. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual consolidated financial statements of the Company and recommends their approval to the Board of Directors. The Committee periodically meets with management and the external auditors to discuss the results of the external and internal examinations and matters having an impact on financial information.

The external auditors appointed by the shareholders, Samson Bélair/Deloitte & Touche s.e.n.c.r.l., Chartered Accountants, are responsible for making an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and to issue an opinion on the statements. The external auditors have free access to the Audit Committee, with or without the presence of management. Their report follows.

Louis Audet
President and Chief Executive Officer

Pierre Gagné
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of COGECO Inc.

We have audited the consolidated balance sheets of COGECO Inc. as at August 31, 2005 and 2004 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2005 and 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair / Deloitte & Touche s.e.n.c.r.l.

Chartered Accountants
Montréal, October 7, 2005

CONSOLIDATED STATEMENTS OF INCOME

Years ended August 31, (in thousands of dollars, except per share data)	2005 $	2004 $
Revenue	**675,605**	648,101
Operating costs (note 1n))	**441,762**	433,597
Operating income before amortization	**233,843**	214,504
Amortization (note 2)	**130,551**	145,204
Operating Income	**103,292**	69,300
Financial expense (note 9)	**57,284**	59,578
Income before income taxes and the following items	**46,008**	9,722
Impairment of goodwill and other intangible assets (note 7)	**52,531**	—
Income taxes (note 3)	**15,373**	38,973
Non-controlling interest	**(2,659)**	(18,874)
Loss on dilution resulting from shares issued by a subsidiary	**108**	122
Share in the loss of a general partnership	**468**	101
Net loss	**(19,813)**	(10,600)
Loss per share (note 11)		
Basic and diluted	**(1.21)**	(0.65)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended August 31, (in thousands of dollars)	2005 $	2004 $
Balance at beginning		
As previously reported	**209,188**	234,903
Changes in accounting policies (note 1c)v))	**–**	(11,650)
As restated	**209,188**	223,253
Net loss	**(19,813)**	(10,600)
Excess of price paid over the attributed value of subordinate voting shares redeemed	**–**	(34)
Dividends on multiple voting shares	**(407)**	(388)
Dividends on subordinate voting shares	**(3,206)**	(3,043)
Balance at end	185,762	209,188

CONSOLIDATED BALANCE SHEETS

As at August 31, (in thousands of dollars)	2005 $	2004 $
Assets		
Current		
Accounts receivable	**55,529**	57,210
Income tax receivable	**—**	304
Prepaid expenses	**4,704**	5,529
Broadcasting rights	**14,168**	13,304
	74,401	76,347
Broadcasting rights	**16,076**	15,124
Investments	**539**	539
Fixed assets (note 5)	**726,270**	716,444
Deferred charges (note 6)	**41,797**	50,768
Broadcasting licenses and customer base (note 7)	**1,017,892**	1,042,498
Goodwill (note 7)	**—**	27,925
	1,876,975	1,929,645
Liabilities and Shareholders' equity		
Liabilities		
Current		
Bank indebtedness (note 8)	**605**	4,551
Accounts payable and accrued liabilities	**151,985**	134,604
Broadcasting rights payable	**7,337**	7,243
Income tax payable	**299**	—
Deferred and prepaid income	**25,034**	22,778
Current portion of long-term debt (note 9)	**1,400**	2,603
	186,660	171,779
Long-term debt (note 9)	**713,739**	772,332
Share in the partners' deficiency of a general partnership	**648**	180
Deferred and prepaid income	**10,522**	9,829
Broadcasting rights payable	**4,112**	2,149
Pension plans liabilities and accrued employees benefits	**10,628**	8,132
Future income tax liabilities (note 3)	**208,434**	196,379
Non-controlling interest	**439,643**	443,818
	1,574,386	1,604,598
Commitments and contingencies (note 15)		
Shareholders' equity		
Capital stock (note 10)	**116,167**	115,621
Retained earnings	**185,762**	209,188
Contributed surplus – stock-based compensation (note 1c)vi))	**660**	238
	302,589	325,047
	1,876,975	1,929,645

On behalf of the Board of Directors,

Jan Peeters
Director

Pierre Comtois
Director

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended August 31, (in thousands of dollars)	2005 $	2004 $
Cash flow from operating activities		
Net loss	(19,813)	(10,600)
Items not affecting cash and cash equivalents		
Amortization (note 2)	130,551	145,204
Amortization of deferred financing costs	1,102	1,542
Impairment of goodwill and other intangible assets (note 7)	52,531	–
Future income taxes (note 3)	12,055	35,974
Non-controlling interest	(2,659)	(18,874)
Other	3,612	2,165
Cash flow from operations	177,379	155,411
Changes in non-cash operating items (note 13a))	23,680	1,797
	201,059	157,208
Cash flow from investing activities		
Acquisition of fixed assets (note 13b))	(115,354)	(84,375)
Increase in deferred charges	(15,316)	(21,276)
Other	85	566
	(130,585)	(105,085)
Cash flow from financing activities		
Increase (decrease) in bank indebtedness	(3,946)	1,516
Increase in long-term debt	557	3,500
Repayment of long-term debt	(62,332)	(54,583)
Issue of subordinate voting shares	546	535
Purchase of subordinate voting shares for cancellation	–	(61)
Dividends on multiple voting shares	(407)	(388)
Dividends on subordinate voting shares	(3,206)	(3,043)
Issue of subordinate voting shares by a subsidiary to non-controlling interest, net of issue cost	742	401
Dividends paid by a subsidiary to non-controlling interest	(2,428)	–
	(70,474)	(52,123)
Net change in cash and cash equivalents and cash and cash equivalents at end	–	–

See supplemental cash flow information in note 13.

1 SIGNIFICANT ACCOUNTING POLICIES

a) Nature of operations

COGECO Inc. (the "Company") is a Canadian public company whose shares are listed on the Toronto Stock Exchange. The Company is engaged in cable television services, high-speed Internet access and digital telephony services through Cogeco Cable Inc. and in radio and television broadcasting through Cogeco Radio-Télévision Inc.

b) Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries. Business acquisitions are accounted for under the purchase method and operating results are included in the consolidated financial statements as of the date of the acquisition of control. Other investments are recorded at cost, except for an investment of 32% in a general partnership, Canal Indigo, which is accounted for under the equity method.

Business segments and percentages in interest of the main subsidiaries are as follows:

Segment	Principal subsidiary	Percentage of interest	Voting rights
		%	%
Cable	Cogeco Cable Inc.	39.2	86.6
Media	Cogeco Radio-Télévision Inc.	100.0	100.0

c) Recent accounting pronouncements and changes in accounting policies

Adopted during fiscal year 2005

i) Asset Retirement Obligations
In March 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3110, *Asset Retirement Obligations*, which provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction, development or normal operations. The standard requires the Company to record the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The standard describes the fair value of a liability for an asset retirement obligation as the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. The Company is subsequently required to allocate that asset retirement cost to the expense using a systematic and rational method over the asset's useful life. The standard applies to fiscal years beginning on or after January 1, 2004. Certain of the Company's subsidiaries' lease agreements contain provisions requiring them to restore facilities or remove equipment in the event that the lease agreement is not renewed. However, the Company's subsidiaries expects to renew most of their lease agreements related to the continued operation of their business and consequently, any liabilities related to the removal provisions on non-renewed leases, if any, are considered not significant to these consolidated financial statements.

ii) Variable Interest Entities
In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), *Consolidation of Variable Interest Entities*, which defines Variable Interest Entities as entities that have insufficient equity or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The standard provides guidance for determining when an entity is a Variable Interest Entity and which entity, if anyone, should consolidate the Variable Interest Entity. The Guideline applies to all annual and interim periods beginning on or after November 1, 2004. During fiscal year 2005, the Company adopted this new accounting guideline and concluded that it has no significant impact on the consolidated financial statements.

1 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

Adopted during fiscal year 2004

iii) Amortization of long-term assets
Effective September 1, 2003, the Company's subsidiary, Cogeco Cable Inc., reviewed the useful life of its decoders and modems, commonly referred to as home terminal devices, and of certain other long-term assets. The useful life of decoders was changed from seven to five years while the useful life of modems was changed from seven to three years. These changes in accounting estimates, applied prospectively, increased amortization expense by $14,000,000 for the year ended August 31, 2004.

iv) Impairment of long-lived assets
In December 2002, the CICA issued Handbook section 3063, *Impairment of long-lived* assets which modified existing guidance on long-lived assets impairment measurements and established standards for the recognition, measurement and disclosure of the impairment of long-lived assets. The new standards require that an impairment loss be recognized when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected from this asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. The adoption of these new recommendations had no impact on the Company's consolidated financial statements for the years ended August 31, 2005 and 2004.

v) Revenue recognition
On December 17, 2003, the Emerging Issues Committee issued EIC-141, *Revenue recognition*, which provides general interpretative guidance on the application of CICA 3400, *Revenue*, and summarizes the principles set forth in "Staff Accounting Bulletin" No. 101 ("SAB 101") published in the United States. In addition, EIC-141 also provides additional guidance on the capitalization of direct incremental costs in connection with up-front revenue. At the same time, the committee also issued EIC-142, *Revenue arrangements with multiple deliverables*, which addresses how to determine when an arrangement involving multiple deliverables contains more than one unit of accounting and if so, how the arrangement consideration should be measured and allocated among each separate unit of accounting.

During fiscal year 2004, the Company's subsidiary, Cogeco Cable Inc., applied these new recommendations and determined that it has multiple revenue arrangements comprised of installation services, sales of home terminal devices and related subscription services. Based on the criteria of EIC-142, the Company's subsidiary determined that the sale of home terminal devices is considered a single unit of accounting of a multiple element arrangement, while installation and related subscription services must be assessed as an integrated package. In addition, certain direct incremental costs in connection with installation revenue may be deferred over the same term as the related revenue. Accordingly, the following changes were adopted retroactively:

- Installation revenue is now deferred and amortized over the average life of a customer's subscription, which is four years. Previously, this revenue was recognized immediately as it was considered as a partial recovery of direct selling costs incurred. Upon billing, the portion of unearned revenue is now recorded as deferred and prepaid income;
- The costs to reconnect customers are now recorded as deferred charges up to a maximum amount not exceeding the revenue generated by the reconnect activity, which is included in installation revenue, and amortized over the average life of a customer's subscription, which is four years. Previously, these costs, which include materials, direct labor and certain overhead charges were capitalized to fixed assets and generally amortized over a period of five years;
- Revenue from the sale of home terminal devices at a subsidized price, which were recorded as a partial recovery of costs, are now recorded as equipment revenue with an equal amount included in operating costs;
- The portion of advertising expense incurred to expand the digital and high-speed Internet customer base that used to be recorded as deferred charges is now recorded as operating costs.

1 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

These changes, relating to revenue recognition, have been applied retroactively and had the following impact on the Company's financial statements:

Year ended August 31, 2004 (amounts are in thousands of dollars, except per share data)	Before adoption $	After adoption $
Revenue	641,374	648,101
Operating costs	418,892	433,597
Amortization	141,062	145,204
Income taxes	45,535	38,973
Non-controlling interest	(15,500)	(18,874)
Net loss	(8,416)	(10,600)
Loss per share		
Basic and diluted	(0.51)	(0.65)

August 31, 2004 (amounts are in thousands of dollars)	Before adoption $	After adoption $
Fixed assets	768,031	716,444
Deferred charges	36,748	50,768
Deferred and prepaid income	16,240	32,607
Future income tax liabilities	215,152	196,379
Non-controlling interest	465,145	443,818
Retained earnings	223,022	209,188

Consequently, retained earnings have been reduced by $11,650,000 as at September 1, 2003 following these changes.

vi) Stock-based compensation and other stock-based payments

On September 1, 2003, the Company and its subsidiaries early adopted the recommendations of CICA Handbook section 3870, *Stock-based Compensation and Other Stock-based Payments*, which defines, among other things, recognition, measurement and disclosure standards for stock-based compensation. The standard requires the Company to use a fair value based method for all options granted. The Company, as permitted by CICA Handbook section 3870, has chosen to apply the new recommendations on a prospective basis. Prior to September 1, 2003, the Company accounted for stock-based compensation by measuring compensation cost for employee stock options as the excess, if any, of the quoted market price of the subordinate voting shares at the date of grant over the amount an employee must pay to acquire these shares, and included in the notes to the financial statements pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied. Any consideration paid by employees on exercise of stock options was credited to capital stock. Effective September 1, 2003, the Company adopted the fair value based method and began accounting for stock options by measuring the compensation cost for options granted on or after September 1, 2003 by using the Binomial option pricing model. As a result of applying these new recommendations, a compensation expense of $484,000 ($238,000 in 2004) was recorded for the year ended August 31, 2005. Supplementary information required under the new recommendations is presented in note 10.

1 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

vii) Hedging relationships
In December 2001, the CICA issued Accounting Guideline 13 ("AcG-13"), *Hedging relationships*, which establishes the criteria for identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The Emerging Issues Committee also issued in June 2002, EIC-128, *Accounting for trading speculative or non-hedging derivative financial instruments*, which establishes that a derivative financial instrument that does not qualify for hedge accounting under AcG-13 should be recognized on the balance sheet at fair value, with changes in fair value recognized in net income. The Company adopted the recommendations of AcG-13 on September 1, 2003. Since the Company is in compliance with the requirements of AcG-13 for its derivative financial instruments, the adoption of these new recommendations had no impact on the Company's consolidated financial statements.

viii) Generally accepted accounting principles hierarchy
In June 2003, the CICA issued Handbook section 1100, *Generally accepted accounting principles*, which establishes standards for financial reporting in accordance with generally accepted accounting principles and identifies other sources to be consulted in selecting accounting policies and disclosures when a matter is not dealt with explicitly in the primary source of generally accepted accounting principles. These new recommendations apply to fiscal years beginning on or after October 1, 2003. The Company examined these new recommendations and concluded that, except for the application of the new accounting policies on revenue recognition, there was no impact on its financial statements.

Future accounting pronouncements

ix) Financial Instruments, Hedges and Comprehensive Income
In January 2005, the CICA issued Handbook section 3855, *Financial Instruments – Recognition and Measurement*, Handbook section 3865, *Hedges* and Handbook section 1530, *Comprehensive Income*.

Section 3855 establishes standards for recognition and measurement of financial assets, financial liabilities and non-financial derivatives. The standard specifies when and to which amount a financial instrument is to be recorded on the balance sheet. Financial instruments are to be recorded at fair value in some cases, and at cost in others. The section also provides guidance for disclosure of gains and losses on financial instruments.

Section 3865 includes and replaces the guidance on hedging relationships that was previously contained in AcG-13, mostly those relating to the designation of hedging relationships and its documentation. The new standard modifies the guidance included in Section 1650, *Foreign Currency Translation*, specifying how to apply hedge accounting and which information has to be disclosed by the entity.

Section 1530 establishes standards for reporting and display of comprehensive income. Comprehensive income includes net income as well as all changes in equity during a period, from transactions and events from non-owner sources. Comprehensive income and its components should be presented in a financial statement with the same prominence as other financial statements.

These sections are to be applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company is currently evaluating the impact of these new standards.

d) Revenue recognition

The Company considers revenue to be earned as services are rendered, provided that ultimate collection is reasonably assured. The Company earns revenue from several sources. The recognition of revenue from the principal sources is as follows:

- Revenue from cable television and related services, and from high-speed Internet access and digital telephony services are recognized when services are provided;
- Revenue generated from sales of home terminal devices are recorded as equipment revenue upon activation of services;
- Installation revenue is deferred and amortized over the average life of a customer's subscription, which is four years;
- Promotional offers are accounted as a deduction of revenue when customers are taking advantage of such offers;
- Revenue generated from payments to television network affiliates are recognized on a straight-line basis over the term of the agreement;
- Advertising revenue is recognized when aired.

Amounts received or invoiced that do not comply with these criteria are accounted for as deferred and prepaid income.

1 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

e) Fixed assets

Fixed assets are recorded at cost. During construction of new assets, direct costs plus a portion of overhead costs are capitalized. Financial expense incurred during construction is expensed. Amortization is provided principally on a straight-line method over the estimated useful lives over the following periods:

Buildings	20 to 40 years
Cable systems	5 to 15 years
Broadcasting and production equipment	5 to 20 years
Home terminal devices	3 to 5 years
Rolling stock under capital leases	5 years
Other equipment	5 years
Other	2 to 10 years

f) Deferred charges

Deferred charges with anticipated future benefits include new services launch costs, equipment subsidies, reconnect costs, start-up costs related to the implementation of new radio stations and financing costs. New services launch costs and financing costs are amortized using the straight-line method, over a period not exceeding five years. Equipment subsidies and reconnect costs are amortized over the average life of a customer's subscription, which is four years. Start-up costs related to the implementation of new radio stations are amortized using the straight-line method over a period of three years.

g) Broadcasting licenses and customer base

The broadcasting licenses represent the value attributed to broadcasting licenses upon acquisition of broadcasting stations. The customer base represents the difference between price paid and the fair value attributed to tangible and intangible assets upon acquisition of cable systems. Broadcasting licenses and customer base are considered to have a deemed indefinite life and consequently are not amortized, but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

h) Goodwill

Goodwill represents the difference between the price paid and the fair value attributed to tangible and intangible assets upon acquisition of broadcasting stations. Goodwill resulting from the acquisition of businesses is not amortized but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

i) Broadcasting rights and broadcasting rights payable

Broadcasting rights are contractual rights allowing limited broadcast of televisual products or movies, generally for a pre-determined period. These broadcasting rights and their related liabilities are recorded at the time the agreement comes into effect and the product is ready for broadcast.

Broadcasting rights are classified as short term or long term based on management's estimates of the broadcast period. Broadcasting rights payable are classified as current liabilities or long term liabilities based on the payment terms included in the contractual agreement.

These rights are amortized upon broadcast over the term of the agreement, based on the estimated number of showings, using an amortization method based on future expected revenue. This amortization is presented in operating costs. The value of broadcasting rights is reduced when impairment in value is recognized.

j) Income taxes

Income taxes are accounted for under the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

1 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

k) Barter transactions

In the normal course of its business, the Company's subsidiary, Cogeco Radio-Télévision Inc., enters into barter transactions under which goods and services are acquired in exchange for advertising. These goods and services, which would be otherwise payable in cash, are accounted for at their fair market value.

l) Employee future benefits

The pension costs, recorded in operating costs, related to the defined contribution pension plan and collective registered retirement saving plans are equivalent to the contributions which the Company is required to pay in exchange for services provided by employees.

Pension costs for defined benefit pension plans are determined using actuarial methods and are funded through contributions determined in accordance with the projected benefit method prorated on service. Pension expense is charged to operating costs and includes:

- The cost of pension benefits provided in exchange for employees' services rendered during the year;
- The amortization of prior service costs and amendments over the expected average remaining service life of the active employee group covered by the plans, which is ten years; and
- The interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets over the expected average remaining service life of the active employee group covered by the plans, which is ten years.

m) Derivative financial instruments

The Company's subsidiary, Cogeco Cable Inc., uses currency swap agreements and foreign exchange forward contracts as derivative financial instruments to manage risks from fluctuations in exchange rates related to its long-term debt and accounts payable. The Company accounts for the financial instruments, under the accrual method, as hedges and, accordingly, the carrying value of the financial instruments are not adjusted to reflect their current market value. The Company does not hold or use any derivative instruments for speculative trading purposes. Net receipts or payments arising from currency swap agreements are recognized as financial expense.

n) Foreign currency translation

Assets and liabilities denominated in foreign currency are translated in Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at transaction date for non-monetary items. Income and expenses are translated at average rates prevailing during the period except for transactions being hedged which were translated using the terms of the hedges. Amounts payable or receivable on currency derivatives, all of which are used to hedge foreign currency debt obligations and anticipated transactions are recorded concurrently with the unrealized gains and losses on the obligations being hedged. Other foreign exchange gains and losses are included in net income. During fiscal year 2005, the Company's subsidiary, Cogeco Cable Inc., realized a foreign exchange gain amounting to $748,000 ($697,000 in 2004).

o) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments which have an original maturity of three months or less.

p) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and the revenue and expenses during the reporting year. Significant areas requiring the use of management estimates relate to the determination of pension plans liabilities and accrued employee benefits, the determination of allowance for doubtful accounts, the useful life of assets for amortization, the determination of future cash flows for the purpose of impairment testing on all long-lived assets and goodwill and other intangible assets, the provision for income taxes and determination of future income tax assets and liabilities, and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

2 AMORTIZATION

(amounts are in thousands of dollars)	2005 $	2004 $
Fixed assets	**107,366**	121,142
Deferred charges	**23,185**	24,062
	130,551	145,204

3 INCOME TAXES

(amounts are in thousands of dollars)	2005 $	2004 $
Current	**3,318**	2,999
Future	**12,055**	35,974
	15,373	38,973

The following table provides the reconciliation between statutory federal and provincial income taxes and the consolidated income tax expense:

(amounts are in thousands of dollars)	2005 $	2004 $
Income tax at combined income tax rate of 34.15 % (33.42 % in 2004)	**(2,387)**	3,216
Loss or income subject to lower or higher tax rates	**2,060**	131
Increase in income taxes as a result of increases in substantially enacted tax rates	**–**	32,483
Large corporation tax	**1,534**	3,825
Income taxes arising from the non-deductible impairment of goodwill and broadcasting licenses	**10,570**	–
Variation of the valuation allowance	**4,078**	–
Other	**(482)**	(682)
Income tax at effective income tax rate	**15,373**	38,973

3 INCOME TAXES (continued)

The income tax effect of temporary differences that give rise to a significant portion of future income tax assets and liabilities are as follows:

(amounts are in thousands of dollars)	2005 $	2004 $
Future income tax assets:		
Non-capital loss carryforwards	**35,739**	58,531
Deferred and prepaid income	**6,328**	5,740
Other	**4,256**	3,692
	46,323	67,963
Valuation allowance	**(9,659)**	(5,581)
Total future income tax assets	**36,664**	62,382
Future income tax liabilities:		
Fixed assets	**57,290**	63,790
Deferred charges	**14,008**	16,779
Broadcasting licenses and customer base	**173,800**	178,192
Total future income tax liabilities	**245,098**	258,761
Net future income tax liabilities	**208,434**	196,379

As at August 31, 2005, the Company's subsidiaries had accumulated income tax losses amounting to approximatively $105,400,000, the benefits of which have been partly recognized in these financial statements. These losses expire as follows:

(amounts are in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $	2014 $	2015 $
	6,000	10,100	42,000	39,400	2,300	2,700	2,900

4 SEGMENTED INFORMATION

The Company's activities are divided into two business segments: Cable and Media. The Cable segment is comprised of all cable, high-speed Internet access and digital telephony services, and the Media segment is comprised of radio and television operations.

The principal financial information per business segment is presented in the table below:

	Cable		Media		Head Office and elimination		Consolidated	
(amounts are in thousands of dollars)	**2005 $**	2004 $	**2005 $**	2004 $	**2005 $**	2004 $	**2005 $**	2004 $
Revenue	**554,404**	526,480	**121,386**	121,797	**(185)**	(176)	**675,605**	648,101
Operating costs	**326,883**	323,234	**114,587**	111,308	**292**	(945)	**441,762**	433,597
Operating income (loss) before amortization	**227,521**	203,246	**6,799**	10,489	**(477)**	769	**233,843**	214,504
Amortization	**125,088**	140,214	**5,306**	4,829	**157**	161	**130,551**	145,204
Operating income (loss)	**102,433**	63,032	**1,493**	5,660	**(634)**	608	**103,292**	69,300
Financial expense	**55,692**	57,957	**528**	520	**1,064**	1,101	**57,284**	59,578
Impairment of goodwill and other intangible assets	**–**	–	**52,531**	–	**–**	–	**52,531**	–
Income taxes	**18,020**	37,269	**(2,899)**	1,085	**252**	619	**15,373**	38,973
Net assets employed[1]	**1,595,216**	1,619,540	**75,561**	126,688	**7,208**	6,814	**1,677,985**	1,753,042
Total assets	**1,755,796**	1,761,379	**114,393**	160,390	**6,786**	7,876	**1,876,975**	1,929,645
Goodwill	**–**	–	**–**	27,925	**–**	–	**–**	27,925
Acquisition of fixed assets	**112,289**	81,222	**4,940**	4,913	**104**	823	**117,333**	86,958

[1] Total assets less cash and cash equivalents, accounts payable and accrued liabilities, broadcasting rights payable and deferred and prepaid income.

5 FIXED ASSETS

(amounts are in thousands of dollars)	2005 $	2004 $
Cost		
Land	3,935	3,936
Buildings	41,546	41,033
Cable systems	1,039,584	981,509
Broadcasting and production equipment	72,079	67,880
Home terminal devices	77,661	85,656
Rolling stock under capital leases	6,017	3,103
Other equipment	43,623	82,203
Other	15,171	14,306
	1,299,616	1,279,626
Accumulated amortization		
Buildings	10,787	9,507
Cable systems	443,133	395,126
Broadcasting and production equipment	38,377	33,762
Home terminal devices	41,680	60,762
Rolling stock under capital leases	1,899	2,774
Other equipment	30,081	54,374
Other	7,389	6,877
	573,346	563,182
	726,270	716,444

6 DEFERRED CHARGES, NET OF AMORTIZATION

(amounts are in thousands of dollars)	2005 $	2004 $
New services launch costs	2,067	3,398
Reconnect costs	21,646	21,833
Equipment subsidies	13,249	20,875
Start-up costs related to the implementation of new radio stations	3,098	1,663
Financing costs	1,262	2,297
Other	475	702
	41,797	50,768

7 GOODWILL AND OTHER INTANGIBLE ASSETS

(amounts are in thousands of dollars)	**2005** $	2004 $
Broadcasting licenses	**28,120**	52,726
Customer base	**989,772**	989,772
	1,017,892	1,042,498
Goodwill	**—**	27,925
	1,017,892	1,070,423

During the year, goodwill and other intangible assets variation were as follows:

(amounts are in thousands of dollars)	Broadcasting licenses $	Customer base $	Goodwill $	Total $
Balance as at August 31, 2004	52,726	989,772	27,925	1,070,423
Impairment	(24,606)	—	(27,925)	(52,531)
Balance as at August 31, 2005	28,120	989,772	—	1,017,892

In accordance with the recommendations of CICA 3062, *Goodwill and Other Intangible Assets*, impairment tests of the goodwill and the broadcasting licenses related to television operation of the media business unit have been performed during the second quarter of fiscal year 2005, using a valuation approach based on discounted cash flow techniques. The impairment tests were necessary following market share losses, emerging business trends and the competitive environment that impact expected future operating results of television. As a result, the Company has recorded a reduction of $24,606,000 in the carrying value of its broadcasting licenses and written-off its goodwill of $27,925,000 during the second quarter of fiscal year 2005, based on revised future estimates of its cash flows. At August 31, 2004, impairment tests were performed and no impairment was recorded.

At August 31, 2005 and 2004, the Company's subsidiaries, Cogeco Cable Inc. and Cogeco Radio-Télévision Inc., tested the value of other intangible assets for impairment and concluded that no impairment existed.

8 BANK INDEBTEDNESS

The available line of credit of the Company amounts to $5,000,000 of which $1,283,000 was used at August 31, 2005 ($2,129,000 in 2004). This line of credit requires commitment fees and bear interest at bank prime rate plus 1.375%. At August 31, 2005, the interest rate on bank indebtedness is 5.625% (5.125% in 2004). This line of credit matures at the same time and is secured on the same basis as the Term Facility (note 9 a)).

The operating line of credit available to Cogeco Cable Inc. amounts to $25,000,000, none of which was used at August 31, 2005 ($4,610,000 in 2004). This line of credit is revised periodically, does not require commitment fees and bear interest at bank prime rate plus 0.25%. At August 31, 2005, the interest rate on bank indebtedness is 4.50% (4.00% in 2004). This line of credit is payable on demand and is secured on the same basis as the Term Facility (note 9 b)).

The operating line of credit available to the indirect subsidiary of the Company, TQS Inc., amounts to $10,000,000, of which $344,000 was used at August 31, 2005 ($365,000 in 2004). This line of credit, in the form of term credit provided by a financial institution, is reviewed periodically and bear interest at bank prime rate plus 2.00%. At August 31, 2005, the interest rate on bank indebtedness is 6.25% (5.75% in 2004). The term credit is secured by a first-ranking fixed and floating charge for an amount of $12,000,000 on the assets of TQS Inc. and its subsidiaries. According to the terms of the credit, TQS Inc. has agreed to maintain certain financial ratios with respect to its accounts receivable and its shareholders' equity. This term credit is renewable on an annual basis.

9 LONG-TERM DEBT

(amounts are in thousands of dollars)	Maturity	Interest rate %	**2005 $**	2004 $
Parent company				
Term Facility	2008	5.00[1]	**22,500**	22,000
Obligation under capital lease	2010	6.61	**55**	—
Subsidiaries				
Term Facility	2007	—	**—**	58,000
Senior Secured Debentures Series 1	2009	6.75	**150,000**	150,000
Senior – Secured Notes				
Series A – US $150 million	2008	6.83	**178,065**	196,950
Series B	2011	7.73	**175,000**	175,000
Second Secured Debentures Series A	2007	8.44	**125,000**	125,000
Deferred credit	2008	—	**60,585**	41,700
Obligations under capital leases	2010	5.87-8.36	**3,831**	3,225
Preferred shares[2]	—	—	**—**	2,920
Other	—	—	**103**	140
			715,139	774,935
Less current portion			**1,400**	2,603
			713,739	772,332

[1] Average interest rate on debt as of August 31, 2005, including stamping fees.
[2] 2,920,000 preferred shares in 2004, 5.5% cumulative dividend, redeemed in 2005 for a cash consideration of $3,004,000.

Interest on long-term debt amounted to $53,475,000 ($54,934,000 in 2004).

a) The Term Facility and the operating line of credit of the Parent company are secured by a first fixed and floating charge on certain assets of the Company and certain of its subsidiaries except for permitted encumbrances, including funded obligations subject to a maximum amount. The provisions under these facilities provide for restrictions on the operations and activities of the Company. Generally, the most significant restrictions are related to permitted investments, dividends on multiple and subordinate voting shares as well as incurrence and maintenance of certain financial ratios primarily linked to financial expense, total indebtedness and shareholders' equity.

   The Term Facility of $40,000,000, provided by a syndicate of financial institutions, can be extended for an additional year at each anniversary date of the facility, subject to lenders' approval. If the approval is not obtained, the Term Facility is convertible in a 2-year Term Facility. In December 2004, the Term Facility has been extended for an additional year. The Term Facility requires commitment fees and interest rates are based, at the Company's option, on bankers' acceptance plus stamping fees or bank prime rates plus stamping fees.

b) The Company's subsidiary, Cogeco Cable Inc.'s, Term Facility of $270,000,000 is repayable at any time without penalty but no later than January 31, 2007, and will be reduced to $95,000,000 as at January 31, 2006. The Term Facility requires commitment fees, and interest rates are based, at Cogeco Cable Inc.'s option, on bankers' acceptance plus stamping fees or bank prime rates plus stamping fees.

   Cogeco Cable Inc.'s Term Facility and the operating line of credit described in note 8 are secured by a first fixed and floating charge on the assets of Cogeco Cable Inc. and certain of its subsidiaries except for permitted encumbrances, including purchase money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary subject to a maximum amount in proportion to consolidated assets. The provisions under these facilities provide for restrictions on the operations and activities of Cogeco Cable Inc. Generally, the most significant restrictions relate to permitted investments, dividends on multiple and subordinate voting shares and reimbursement of long-term debt as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before amortization, financial expense, fixed charges and total indebtedness. Cogeco Cable's credit facilities are not guaranteed by COGECO Inc.

9 **LONG-TERM DEBT** (continued)

c) The Senior Secured Debentures Series 1 are redeemable at the Company's subsidiary, Cogeco Cable Inc.'s option, in whole or in part, at the greater of par value or the Canada bond yield plus 0.3%. These debentures mature on June 4, 2009 and bear interest at 6.75% per annum, payable semi-annually. These debentures are indirectly secured by a first fixed and floating charge and a security interest on all assets of Cogeco Cable Inc. and certain of its subsidiaries.

d) The Senior Secured Notes are senior secured obligations and rank equally and rateably with all existing and future senior indebtedness. These notes are indirectly secured by a first fixed and floating charge and a security interest on all assets of Cogeco Cable Inc. and certain of its subsidiaries. The notes are redeemable at the Company's subsidiary Cogeco Cable Inc.'s option at any time, in whole or in part, prior to maturity at 100% of the principal amount plus a make-whole premium. The Series A mature on October 31, 2008 and the Series B mature on October 31, 2011. The Senior Secured Notes Series B have an interest coupon rate of 7.73% per annum, payable semi-annually. On November 1, 2001, the Company's subsidiary, Cogeco Cable Inc., entered into cross-currency swap agreements to fix the liability for interest and principal payments on US $150,000,000 of its Senior Notes Series A which have an interest coupon rate of 6.83% per annum, payable semi-annually. These agreements have resulted in an effective interest rate of 7.254% on the Canadian dollar equivalent of the US debt. The exchange rate applicable to the principal portion of the debt has been fixed at CDN $1.5910.

e) The Second Secured Debentures Series A are redeemable at the Company's subsidiary, Cogeco Cable Inc.'s option, in whole or in part, at the greater of par value or Canada bond yield plus 0.5%. These debentures mature on July 31, 2007, and bear interest at 8.44% per annum, payable semi-annually. These debentures are secured by second fixed charges on certain assets and floating charges on all assets of Cogeco Cable Inc. and certain of its subsidiaries.

f) The deferred credit represents the amount which would have been payable at August 31, 2005 and 2004 under cross-currency swaps entered into by the Company's subsidiary, Cogeco Cable Inc., to hedge Senior Secured Notes Series A denominated in US dollars (note 9 d)).

g) Principal repayments due on long-term debt for the next five years, excluding those under capital leases, are as follows:

(amounts are in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $
	65	125,018	22,513	388,657	–

h) Minimum payments due under capital leases total $4,321,000 of which $435,000 represent financial expense, and are as follows:

(amounts are in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $
	1,563	1,366	990	396	6

10 CAPITAL STOCK

Authorized

Unlimited number of:

Preferred shares of first and second rank, issuable in series and non-voting, except when specified in the Articles of Incorporation of the Company or in the Law.

Multiple voting shares, 20 votes per share

Subordinate voting shares, 1 vote per share

Issued

(amounts are in thousands of dollars, except number of shares)	**2005** $	2004 $
1,849,900 multiple voting shares	**12**	12
14,600,104 subordinate voting shares (14,522,456 in 2004)	**116,155**	115,609
	116,167	115,621

During the year, subordinate voting shares transactions were as follows:

	2005		2004	
(amounts are in thousands of dollars, except number of shares)	**Number of shares**	**Amount** $	Number of shares	Amount $
Balance at beginning	**14,522,456**	**115,609**	14,465,777	115,101
Shares issued for cash under the Employee Stock Purchase Plan and the Stock Option Plan	**77,648**	**546**	60,079	535
Purchase of shares for cancellation	**–**	**–**	(3,400)	(27)
Balance at end	**14,600,104**	**116,155**	14,522,456	115,609

During fiscal year 2005, the Company issued 348 shares (2,079 shares in 2004) pursuant to its Employee Stock Purchase Plan for a cash consideration of $7,000 ($28,000 in 2004) and issued 77,300 shares (58,000 shares in 2004) pursuant to its Employee Stock Option Plan for a cash consideration of $539,000 ($507,000 in 2004). Also, in 2004, pursuant to a normal course issuer bid, the Company purchased for cancellation 3,400 subordinate voting shares for a cash consideration of $61,000. The excess of the purchase price over the book value of purchased shares reduced retained earnings by $34,000.

10 CAPITAL STOCK (continued)

Stock-based plans

The Company established, for the benefit of its employees and those of certain of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives. Under these plans, no more than 10% of the outstanding subordinate voting shares are available.

Stock Purchase Plans
The Employee Stock Purchase Plans are accessible to all employees up to a maximum of 5% of their annual salary. The subscription date is December 31 and the subscription price is based on the average market price of the shares of the last five business days of November less 10%. A maximum of 270,000 shares of COGECO Inc. and 167,500 shares of Cogeco Cable Inc. are available, up to 40,000 annually, under these plans.

Stock Option Plans
The Company and its subsidiary, Cogeco Cable Inc. established for the benefit of certain executives Stock Option Plans. Under the plans conditions, the minimum purchase price at which options are granted is not less than the market value of such shares at the time the option is granted. Granted options vest 20% per year beginning the day such options are granted and are exercisable over 10 years. For the exercise of options granted on or after October 17, 2003, an amount equivalent to 20% of net gain after related taxes must be kept in shares of the Company until termination of employment with the Company or retirement.

A total of 1,275,700 subordinate voting shares are reserved for the purpose of COGECO Inc.' Stock Option Plan. Under the plan, the following options were granted by the Company and are outstanding as at August 31:

	2005		2004	
	Options	**Weighted average exercise price $**	Options	Weighted average exercise price $
Outstanding, beginning of year	**506,576**	**15.74**	567,476	15.06
Exercised	**(77,300)**	**6.98**	(58,000)	8.74
Forfeited	**—**	**—**	(2,900)	23.23
Outstanding, end of year	**429,276**	**17.32**	506,576	15.74
Exercisable, end of year	**413,755**	**17.18**	466,765	14.98

10 CAPITAL STOCK (continued)

At August 31, 2005, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of COGECO Inc.' options are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices $	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable	Weighted average exercise price $
6.50 to 6.60	38,300	1.06	6.59	38,300	6.59
10.00 to 14.00	199,000	2.68	12.07	199,000	12.07
20.95 to 21.40	148,133	5.21	21.16	132,612	21.19
37.50	43,843	5.17	37.50	43,843	37.50
	429,276	3.67	17.32	413,755	17.18

During fiscal year 2005 and 2004, no stock options were granted to employees by COGECO Inc.

A total of 1,832,500 subordinate voting shares are reserved for the purpose of Cogeco Cable Inc.' Stock Option Plan. Under the plan, the following options were granted by Cogeco Cable Inc. and are outstanding as at August 31:

	2005		2004	
	Options	**Weighted average exercise price $**	Options	Weighted average exercise price $
Outstanding, beginning of year	**509,515**	**17.42**	378,882	16.99
Granted	**140,766**	**21.50**	164,980	16.56
Exercised	**(55,462)**	**11.38**	(33,004)	8.00
Forfeited	**(4,096)**	**14.35**	(1,343)	23.45
Outstanding, end of year	**590,723**	**18.98**	509,515	17.42
Exercisable, end of year	**326,851**	**19.74**	250,774	19.12

10 CAPITAL STOCK (continued)

At August 31, 2005, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of Cogeco Cable Inc.'s options are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices $	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable	Weighted average exercise price $
7.05	86,084	7.17	7.05	51,650	7.05
14.30 to 18.12	163,190	7.92	16.42	70,646	16.26
20.40 to 25.20	321,543	7.25	22.39	184,649	22.82
36.10 to 40.75	19,906	5.13	36.39	19,906	36.39
	590,723	7.35	18.98	326,851	19.74

During fiscal year 2005, Cogeco Cable Inc. granted 140,766 stock options (164,980 in 2004) with an exercise price of $21.50 ($15.70 to $18.12 in 2004), of which 38,397 stock options (48,037 in 2004) were granted to COGECO Inc.'s employees.

The Company and its subsidiary, Cogeco Cable Inc., recorded compensation expense for options granted on or after September 1, 2003. As a result, a compensation expense of $484,000 ($238,000 in 2004) was recorded for the year ended August 31, 2005. As described in note 1 c)vi), no compensation expense has been recorded for options granted before September 1, 2003. If compensation cost had been recognized using the fair value-based method at the grant date for options granted between September 1, 2001 and August 31, 2003, the Company's net loss and loss per share for the years ended August 31, 2005 and 2004 would have been increased to the following pro forma amounts:

(amounts are in thousands of dollars, except per share data)	**2005** $	2004 $
Net loss		
As reported	**(19,813)**	(10,600)
Pro forma	**(20,133)**	(10,920)
Basic and diluted loss per share		
As reported	**(1.21)**	(0.65)
Pro forma	**(1.23)**	(0.67)

10 CAPITAL STOCK (continued)

The fair value of each option granted by Cogeco Cable Inc. was estimated on the grant date for purposes of determining stock-based compensation expense using the Binomial option pricing model based on the following assumptions:

(in percentage, except expected life in years)	**2005** %	2004 %
Expected dividend yield	**1.27**	1.27
Expected volatility	**43**	49
Risk-free interest rate	**3.70**	4.04
Expected life in years	**4.0**	3.9

The fair value of stock options granted by Cogeco Cable Inc. for the year ended August 31, 2005 was $7.46 ($6.53 in 2004) per option.

For purpose of compensation expense and pro forma disclosures, stock-based compensation is amortized to expense on a straight-line basis over the vesting period, which is four years.

The Binomial option pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option pricing models require the use of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can have a significant effect on the fair value estimate, in management's opinion, the existing option pricing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

TQS Inc., an indirect subsidiary of the Company, adopted in May 2002 a stock option plan for certain executives and key employees. The Company's subsidiary participating and non-voting common shares are subject to this plan. The maximum number of shares that can be issued under this plan is 10% of TQS Inc.'s voting and non-voting common shares issued and outstanding as of the date of grant of the options. The plan provides for the granting by the Board of Directors of TQS Inc. to the participants of options, at each evaluation date or any other date determined by the Board of Directors. The plan also provides for the granting by the Board of Directors to the participants the right to receive the increased value of the shares ("the appreciation rights"), jointly with the options being granted. In such a case, an appreciation right is not separable from the option with which it was granted such that when a participant decides to exercise its appreciation rights, he consequently renounces to the corresponding stock options. TQS Inc. thereby incurs a liability since the participant may request the payment in cash of the increase in value of the shares by exercising its appreciation rights. The purchase price at which options are granted is the market value as determined at the last date of evaluation of shares. The stock options vest 20% per year beginning one year after the day such stock options are granted and can be exercised during a period of ten years and six months following their granting date.

Under the Stock Option Plan, the following options were granted by TQS Inc. and are outstanding as at August 31:

	2005	2004
Outstanding, beginning of year	**498,561**	822,339
Granted	**77,000**	97,179
Cancelled as a result of the exercise of appreciation rights	**–**	(403,036)
Forfeited	**–**	(17,921)
Outstanding, end of year	**575,561**	498,561
Exercisable, end of year	**149,392**	–

The compensation cost related to the options granted is based on the fair value and is amortized on a declining-basis over a period of five years from the date of grant. In 2005, an expense amounting to $162,000 has been recorded related to this plan. In 2004, an amount of $212,000 was recorded as a reduction of expense.

10 CAPITAL STOCK (continued)

Performance Unit Plans

The Company and its subsidiary, Cogeco Cable Inc., have also adopted Performance Unit Plans for key employees. The value of a performance unit granted is equal to the closing price of the subordinate shares of the Company and its subsidiary on the Toronto Stock Exchange on the trading day preceding the date of grant of the unit. The units credited to the participant's account will become vested to the participant on the third anniversary of the date of grant of the said performance units. The units credited before October 17, 2003, will be redeemed only at the termination of the participant's employment or in case of retirement or death. The units credited to the participant's account on or after October 17, 2003, which are vested to the participant may also be redeemed, at the request of the participant at the following conditions:

i) Invest an amount equal to 20% of the net income after related tax resulting from any such realization, in share of the Company from which the performance units were redeemed;

ii) Hold such shares until the termination of his employment with the Company or his retirement.

Each unit credited gives the right to a Dividend Equivalent equal to the amount of dividend per share paid on the subordinate voting shares of the Company and its subsidiary. The Dividend Equivalent is converted into additional units. The units do not confer to the participant the right to acquire shares or other securities of the Company under any circumstances and the participant shall not, by holding units or otherwise be considered a shareholder of the Company nor have any rights to become a shareholder as a result. In 2005, an expense amounting to $1,792,000 ($704,000 in 2004) has been recorded related to these plans.

11 LOSS PER SHARE

The following table provides a reconciliation between basic and diluted loss per share:

(amounts are in thousands of dollars, except number of shares and per share data)	**2005** **$**	2004 $
Net loss	**(19,813)**	(10,600)
Weighted average number of multiple voting and subordinate voting shares outstanding	**16,419,584**	16,343,673
Effect of dilutive stock options[(1)]	**—**	—
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	**16,419,584**	16,343,673
Loss per share		
Basic and diluted	**(1.21)**	(0.65)

(1) In 2005, the effect of 366,400 stock options (331,850 in 2004) was not included in diluted loss per share, as the effect of their inclusion was antidilutive.

12 FINANCIAL INSTRUMENTS

Fair value

The Company uses the following methods and assumptions to evaluate fair market value of financial instruments:

Accounts receivable, bank indebtedness, accounts payable and accrued liabilities and broadcasting rights payable
The carrying amount in the consolidated balance sheets approximates fair value because of the short-term nature of these instruments.

Long-term debt

a) Financial expense under the terms of the Company's Term Facilities are based upon banker's acceptance plus stamping fees or bank prime rates plus stamping fees. Therefore, carrying value is considered to represent fair market value for Terms Facilities.

b) The fair value of the Senior Secured Debentures Series 1, Senior Secured Notes Series A and B, and Second Secured Debentures Series A, is based upon current trading values for similar financial instruments.

c) The carrying values of obligations under capital leases and other items of the long-term debt approximate the fair value of these financial instruments due to their terms.

d) The fair value of the derivative financial instruments is based upon available information about the financial instruments and market conditions.

The estimated fair values of long-term debt instruments and derivative instruments are as follows:

	2005		2004	
(amounts are in thousands of dollars)	**Carrying amount $**	**Estimated fair value $**	Carrying amount $	Estimated fair value $
Long-term debt	**654,554**	**702,119**	733,235	744,643
Derivative financial instruments – liability position	**60,585**	**74,972**	41,700	45,622

Fair values are estimated at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risks
The Company's credit risk arises from the possibility that counterparts to the foreign exchange forward contracts and the cross-currency swap agreements may default on their obligations. The Company reduces risks by completing transactions with financial institutions that carry a credit rating equal or superior to A+. In addition, since the Company has a large and diversified clientele, credit risk concentration from customers is minimal.

13 STATEMENTS OF CASH FLOW

a) Changes in non-cash operating items

(amounts are in thousands of dollars)	2005 $	2004 $
Accounts receivable	**1,681**	5,823
Income tax receivable	**304**	(264)
Prepaid expenses	**825**	(1,637)
Broadcasting rights	**(1,816)**	1,568
Accounts payable and accrued liabilities	**17,381**	(2,151)
Broadcasting rights payable	**2,057**	(3,723)
Income tax payable	**299**	—
Deferred and prepaid income	**2,949**	3,117
Other	**—**	(936)
	23,680	1,797

b) Fixed assets

During the year, fixed assets acquisitions amounted to $117,333,000 ($86,958,000 in 2004), $1,979,000 ($2,583,000 in 2004) of which were acquired through capital leases. Disbursements for the purchase of fixed assets totalled $115,354,000 ($84,375,000 in 2004).

c) Other information

(amounts are in thousands of dollars)	2005 $	2004 $
Interest paid	**55,817**	58,395
Income taxes paid	**2,715**	3,263

14 EMPLOYEES FUTURE BENEFITS

The Company and its subsidiaries offer their employees contributory defined benefit pension plans, a defined contribution pension plan or collective registered retirement savings plans. With respect to the last two plans, the Company and its subsidiaries' obligations are limited to the payment of the monthly employer's portion. Expenses related to these two plans amounted to $1,593,000 ($1,543,000 in 2004).

The defined benefit pension plans provide pensions based on the number of years of service and the average salary during the employment of each participant. In addition, the Company and its subsidiaries offer certain executives a supplementary pension plan. The Company measures plans' assets at fair value and the accrued benefit obligation as at August 31 of each year for all plans. The most recent actuarial valuation of the pension plans were as of August 31, 2004 and the next required valuation will be as of August 31, 2005.

14 EMPLOYEES FUTURE BENEFITS (continued)

The following table provides a reconciliation of the change in the plans' benefit obligations and plans' assets at fair value and a statement of the funded status as at August 31:

(amounts are in thousands of dollars)	2005 $	2004 $
Accrued benefit obligation		
Accrued benefit obligation at beginning of year	**25,643**	23,716
Current service cost	**1,301**	1,125
Interest cost	**1,699**	1,531
Contributions by plans' participants	**244**	187
Benefits paid	**(1,193)**	(1,034)
Actuarial loss on obligation	**6,989**	118
Accrued benefit obligation at end of year	**34,683**	25,643
Plans' assets at fair value		
Plans' assets at fair value at beginning of year	**15,183**	13,377
Actual return on plans' assets	**1,708**	941
Contributions by plans' participants	**244**	187
Employer contributions	**1,390**	1,712
Benefits paid	**(1,193)**	(1,034)
Plans' assets at fair value at end of year	**17,332**	15,183
Funded Status		
Plans' assets at fair value	**17,332**	15,183
Accrued benefit obligation	**34,683**	25,643
Plans' deficit	**17,351**	10,460
Net actuarial losses not recognized	**(10,288)**	(4,292)
Net accrued benefit liability	**7,063**	6,168

The accrued benefit liability is included in the Company's balance sheet under pension plans liabilities and accrued employee benefits.

(amounts are in thousands of dollars)	2005 $	2004 $
Defined benefit pension costs		
Current service cost	**1,301**	1,125
Interest cost	**1,699**	1,531
Actual return on plans' assets	**(1,708)**	(941)
Difference between expected return and actual return on plans' assets	**680**	34
Amortization of net actuarial loss	**313**	212
Net periodic benefit cost	**2,285**	1,961

14 EMPLOYEES FUTURE BENEFITS (continued)

Plans' assets consist of:

	2005 %	2004 %
Equity securities	**62**	64
Debt securities	**32**	34
Other	**6**	2
Total	**100**	100

The significant weighted average assumptions used in measuring the Company's pension and other obligations are as follows:

	2005 %	2004 %
Accrued benefit obligation		
Discount rate	**5.00**	6.25
Rate of compensation increase	**5.00**	5.00
Defined benefit pension costs		
Discount rate	**6.25**	6.50
Expected long-term rate of return on plans' assets	**7.25**	7.25
Rate of compensation increase	**5.00**	5.00

15 COMMITMENTS AND CONTINGENCIES

Commitments

Lease agreements and other long-term contracts
As at August 31, 2005, the Company and its subsidiaries are committed under lease agreements and other long-term contracts to make annual payments as follows:

(amounts are in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $	2011 and thereafter $
	19,601	15,336	15,085	13,439	12,476	20,622

15 COMMITMENTS AND CONTINGENCIES (continued)

Broadcasting rights
The indirect subsidiary of the Company, TQS Inc., is committed to pay annual payments as follows in connection to its broadcasting rights agreements:

(amounts are in thousands of dollars)	2006	2007	2008	2009	2010	2011 and thereafter
	$	$	$	$	$	$
	18,803	2,457	100	–	–	–

Significant benefits and licenses conditions
Following the acquisition of the TQS Inc. television network, the indirect subsidiary of the Company, TQS Inc. is committed with the Canadian Radio-Television and Telecommunications Commission ("CRTC") to contribute beginning September 1, 2002 an amount of $7,390,000 over a period of six years within the Canadian television industry for independent production. Also, according to its licenses conditions, TQS Inc. is committed to contribute in independent production, minimum annual amounts of $4,000,000 beginning September 1, 2001 and a total amount of $40,000,000 over a period of seven years. As at August 31, 2005, the remaining amount to be contributed is $16,056,000 ($21,407,000 in 2004).

Also, according to radio licenses conditions, Cogeco Radio-Télévision Inc. is committed to contribute for the benefits of Canadian artists minimum annual amounts of $150,000 beginning September 1, 2003 and $120,000 beginning September 1, 2004 for a total amount of $1,890,000 over a period of seven years. As at August 31, 2005, the remaining amount to be contributed is $1,470,000 ($1,830,000 in 2004).

Contingencies

Second Put and Call Options of TQS Inc.
The agreement between the shareholders of 3947424 Canada Inc. ("TQS Holdco"), the subsidiary of Cogeco Radio-Télévision Inc. ("CRTI") provides the right for CTV Television Inc. ("CTV"), a subsidiary of Bell Globemédia inc. ("BGM"), to notify CRTI, during a 180 day period starting from February 15, 2007, of its offer to sell all its shares in TQS Holdco to CRTI for an all-cash consideration calculated as the fair market value of TQS Holdco multiplied by the ratio of shares owned by CTV to total shares issued and outstanding in the capital of TQS Holdco, and multiplied by 1.15. CRTI may elect to acquire CTV's shares within 90 days following receipt of the put notice by delivering a put exercise notice to CTV. If CRTI elects not to exercise or fails to exercise its put option, CTV may within 90 days following such election or failure to exercise by CRTI, deliver a call notice to CRTI to purchase all the shares of CRTI in TQS Holdco for an all-cash consideration calculated as the fair market value of TQS Holdco multiplied by the ratio of shares owned by CRTI to total shares issued and outstanding in the capital of TQS Holdco, and multiplied by 1.30. Unless the parties decide to modify the agreement, in the event that CTV notifies CRTI of its offer to sell all its shares in TQS Holdco to CRTI, CRTI does not buy them and CTV does not buy CRTI's shares, CRTI and CTV have agreed to put up all TQS Holdco shares for sale to a third party purchaser, subject to requisite governmental authorizations, with a view to obtaining the highest possible price and maximizing shareholder value.

Other
The Company and its subsidiaries are involved in matters involving litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be significant to these financial statements.

15 COMMITMENTS AND CONTINGENCIES (continued)

Disclosure of guarantees
In the normal course of business, the Company and its subsidiaries enter into agreements containing features that meet the criteria for a guarantee including the following:

Businesses and assets disposal
In connection with the sale of businesses or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Company's subsidiaries, Cogeco Cable Inc. and Cogeco Radio-Télévision Inc. have agreed to indemnify the purchaser against claims related to events which occurred prior to the sale. The term and amount of such indemnification will sometimes be limited by the agreement. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability required to be paid to guaranteed parties. In management's opinion, the likelihood that a significant liability will be incurred under these obligations is low. As at August 31, 2005 and 2004, no liability has been recorded associated with these indemnifications.

Long-term debt
Under the terms of the Senior Secured Notes and the Second Secured Debentures Series A, the Company's subsidiary, Cogeco Cable Inc., has agreed to indemnify the other parties against changes in regulation relative to withholding taxes. These indemnifications extend for the term of the related financings and do not provide any limit on the maximum potential liability. The nature of the indemnification agreement prevents the Company from estimating the maximum potential liability it could be required to pay. As at August 31, 2005 and 2004, no liability has been recorded associated with these indemnifications.

Loan guarantee
The Company's subsidiary, Cogeco Radio-Télévision Inc., and its subsidiary TQS Inc. have guaranteed the credit facility of a general partnership, Canal Indigo, up to a maximum amount of $1,000,000. As at August 31, 2005 and 2004, no liability has been recorded associated with this loan guarantee, except for the share in the partners' deficiency of a general partnership for an amount of $648,000 ($180,000 in 2004).

Moveable hypothecs
The Company's subsidiary, Cogeco Radio-Télévision Inc., has granted moveable hypothecs in favour of its lessors on broadcasting and production equipments for a value of $900,000.

Employees and contractuals indemnification agreements
The Company's subsidiary, Cogeco Radio-Télévision Inc., and its subsidiary TQS Inc. indemnify certain of their on air hosts, against charges, costs and expenses as a result of any lawsuit, resulting from judicial or administrative proceeds in which they are named as defending party and arising from the performance of their service. The claims covered by such indemnification are subject to statutory or other legal limitation period. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements. The Company has purchased employees' and contractual's liability insurance with a deductible per loss. As at August 31, 2005 and 2004, no liability has been recorded associated with these indemnifications.

16 NON-MONETARY OPERATIONS

During fiscal year 2005, the Company's subsidiary, Cogeco Radio-Télévision Inc., has entered into barter transactions for an amount of $2,175,000 ($2,341,000 in 2004). Related revenue and operating costs of an equivalent amount were recorded.

17 GOVERNMENTAL ASSISTANCE

The Company's subsidiary, Cogeco Radio-Télévision Inc., received an amount of $371,000 ($138,000 in 2004) of tax credits related to television productions. These credits were accounted for in deduction of programs' production costs.

18 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2005.

(in thousands of dollars, except other statistics, per share data and ratios)	2005 $	2004 $	2003 (restated) $
Operations			
Revenue	**675,605**	648,101	613,675
Operating Income	**233,843**	214,504	195,362
Financial expense	**57,284**	59,578	62,776
Income (Loss) before income taxes and other items[1]	**(6,523)**	9,722	17,894
Net income (loss)	**(19,813)**	(10,600)	6,751
Cash flow			
Cash flow from operations	**177,379**	155,411	129,712
Acquisitions of fixed assets and increase in deferred charges	**132,649**	108,234	117,347
Free Cash Flow	**44,730**	47,177	12,365
Financial condition			
Fixed assets	**726,270**	716,444	750,641
Net assets employed[2]	**1,677,985**	1,753,042	1,794,800
Total assets	**1,876,975**	1,929,645	1,974,160
Indebtedness	**715,744**	779,486	826,470
Shareholders' equity	**302,589**	325,047	338,366
Other statistics			
Number of shares outstanding at year end	**16,450,004**	16,372,356	16,315,677
Weighted average number of outstanding shares	**16,419,584**	16,343,673	16,254,656
Per share data (basic)			
Operating Income	**14.24**	13.12	12.02
Net income (loss)	**(1.21)**	(0.65)	0.42
Cash flow from operations	**10.80**	9.51	7.98
Return ratios			
Operating Margin[3]	**34.6 %**	33.1 %	31.8 %
Return on average net assets employed[4]	**13.6 %**	12.1 %	10.8 %
Return on Equity[5]	**(6.3)%**	(3.2)%	2.0 %
Financial ratios			
Indebtedness/Operating Income	**3.1**	3.6	4.2
Interest coverage[6]	**4.1**	3.6	3.1
Indebtedness/Shareholders' equity	**2.4**	2.4	2.4

(1) Income before income taxes, non-controlling interest, loss on dilution resulting from shares issued by a subsidiary and share in the loss of general partnership.
(2) Total assets less cash and cash equivalents, accounts payable and accrued liabilities, broadcasting rights payable and deferred and prepaid income.
(3) Operating Income/Revenue.
(4) Operating Income/Average net assets employed.
(5) Net income applicable to multiple voting shares and subordinate voting shares/Average shareholders' equity.
(6) Operating Income/Financial expense.

CONSOLIDATED CAPITALIZATION

As at August 31, (in thousands of dollars)	**2005** $	2004 $	2003 (restated) $
Indebtedness	**715,744**	779,486	826,470
Shareholders' equity	**302,589**	325,047	338,366
Total	**1,018,333**	1,104,533	1,164,836

CREDIT RATINGS OF COGECO CABLE

In fiscal 2005, DBRS raised its outlook to positive, while S&P confirmed its stable outlook on Cogeco Cable's ratings.

As at August 31, 2005	DBRS	S&P
Senior Secured Notes, Series A and B	BB (High)	BBB–
Senior Secured Debentures Series 1	BB (High)	BBB–
Second Secured Debentures Series A	BB	BB+

SHARE INFORMATION

As at August 31, 2005		
		Registrar/Transfer Agent
Number of multiple voting shares		National Bank Trust
(20 votes per share) outstanding	1,849,900	1100 University Street, 9th Floor
Number of subordinate voting shares		Montréal (Québec) H3B 2G7
(1 vote per share) outstanding	14,600,104	Tel.: (514) 871-7171
Stock exchange listing	The Toronto Stock Exchange	Tel.: 1 800 341-1419
Trading symbol	CGO.SV	Fax: (514) 871-7442

DIVIDEND POLICY

The Company declared a quarterly dividend of $0.0525 during the first three quarters and $0.0625 during the last quarter of fiscal 2005, totalling $0.22 per share on an annual basis ($0.21 per share on an annual basis, or $0.0525 quarterly, in fiscal 2004) to the holders of subordinate voting shares and multiple voting shares.

TRADING STATISTICS

(in dollars, except subordinate voting share volumes)					**2005**
Quarters ended	**Nov. 30**	**Feb. 28**	**May 31**	**Aug. 31**	**Total**
	$	**$**	**$**	**$**	
The Toronto Stock Exchange					
High	**23.89**	**24.90**	**25.50**	**29.20**	
Low	**17.40**	**20.25**	**22.25**	**24.75**	
Close	**21.00**	**24.36**	**25.00**	**28.75**	
Volume (shares)	**1,081,219**	**1,382,988**	**538,105**	**848,142**	**3,850,454**

					2004
Quarters ended	Nov. 30	Feb. 29	May 31	Aug. 31	Total
	$	$	$	$	
The Toronto Stock Exchange					
High	17.15	18.44	19.98	20.70	
Low	14.75	15.05	16.01	16.75	
Close	15.30	18.44	18.55	18.00	
Volume (shares)	925,756	840,628	1,768,079	347,430	3,881,893

Number of Customers	2005	2004	2003	2002	2001
Homes Passed	**1,448,733**	1,423,256	1,397,486	1,375,494	1,358,880
Homes Connected(1)	**876,490**	873,546	830,077	843,598	881,731
Revenue-Generating Units	**1,355,818**	1,271,899	1,188,369	1,124,358	1,082,953
Basic Service Customers	**821,433**	823,855	820,657	836,368	878,766
Percent Penetration	**56.7%**	57.9%	58.7%	60.8%	64.7%
Discretionary Service Customers	**644,358**	641,239	639,820	644,031	702,604
Penetration as Percentage of Basic(2)	**78.8%**	78.2%	78.2%	79.1%	81.3%
Pay-TV Service Customers	**116,224**	112,813	113,614	116,484	108,626
Penetration as Percentage of Basic	**14.1%**	13.7%	13.8%	13.9%	12.4%
High-Speed Internet Service Customers(3)	**277,648**	239,608	198,609	161,999	99,048
Penetration as Percentage of Basic(2)	**37.7%**	33.4%	27.6%	22.5%	14.7%
Digital Terminals	**303,884**	240,071	183,087	144,950	105,292
Penetration as Percentage of Basic(2)	**37.7%**	29.8%	22.8%	18.4%	13.3%
Digital Customers	**255,289**	208,436	162,533	129,798	97,216
Digital Telephony Service	**1,448**	–	–	–	–

(1) Internet service customers who do not subscribe to other cable services and basic service customers.
(2) Calculated on the basis of the systems where the service is offered.
(3) The number of Internet service customers has been restated to reflect the number of customers based on the billing dates, which are spread throughout the month, instead of the number of customers at the end of the fiscal year. This change produces a downward adjustment.

	Homes Passed	Basic Service		Basic Service
		Customers	% of Penetration(1)	Distribution by province as a %
Breakdown by Province				
Ontario	986,401	581,631	59.0	70.8
Québec	462,332	239,802	51.9	29.2
Total	1,448,733	821,433	56.7	100.0

(1) As percentage of homes passed.

Board of Directors

■▲◆ **Jan Peeters**
Montréal (Québec)
President and Chief Executive Officer
and Board Chair,
Olameter Inc.
Board Chair

■ **Henri Audet**, Eng., C.M., B.A., B.A.Sc., M.Sc., D.Sc.
Montréal (Québec)
Chairman Emeritus
Director

■ **Louis Audet**, Eng., M.B.A.
Westmount (Québec)
President and Chief Executive Officer
Director

▲ **Robert Bonneau**, Eng.
Longueuil (Québec)
Corporate Director
Director

●◆ **Jacqueline L. Boutet**, C.M.
Montréal (Québec)
President,
Jacqueline L. Boutet Inc.
Director

● **André Brousseau**, B.A., B.Ped., M.E. Ed.
Trois-Rivières (Québec)
Corporate Director
Director

● **Pierre Comtois**, Adm. A., Pl.Fin.
Montréal (Québec)
President and Chief Investment Officer,
Optimum Asset Management Inc.
Director

●◆ **Claude A. Garcia**, B.A., B.Com
Montréal (Québec)
Corporate Director
Director

▲ **Henri P. Labelle**, B.Arch., M.B.A.
Montréal (Québec)
Architect and Certified Arbitrator
Director

◆ **David McAusland**, B.C.L., LL.B.
Beaconsfield (Québec)
Executive Vice President,
Corporate Development
and Chief Legal Officer,
Alcan Inc.
Director

● **Pierre Robitaille**, F.C.A., M.B.A.
Saint-Lambert (Québec)
Corporate Director and Business Advisor
Director

Legend:
■ Member of the Executive Committee
● Member of the Audit Committee
▲ Member of the Human Resources Committee
◆ Member of the Corporate Governance Committee

Management

Louis Audet
President and Chief Executive Officer

Pierre Gagné
Vice President,
Finance and Chief Financial Officer

Yves Mayrand
Vice President,
Corporate Affairs

Christian Jolivet
Chief Legal Officer and Secretary

Marie Carrier
Director, Corporate Communications

Isabelle Morin
Director, Internal Audit and Financial Planning

Andrée Pinard
Treasurer

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Fax: (514) 874-2625
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Annual Meeting
The Annual Shareholders Meeting will be held at 4 p.m. on Thursday, December 15, 2005, at the Stock Exchange Tower, 800 Square Victoria, 4th floor, Montréal (Québec).

Auditors
Samson Bélair/Deloitte & Touche
1 Place Ville Marie
Suite 3000
Montréal (Québec)
H3B 4T9

Legal Counsel
Fraser Milner Casgrain LLP
1 Place Ville Marie
Suite 3900
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Quarter ends
November, February, May

Year end
August 31

Inquiries

The Annual Report, Annual Information Form and Quarterly Reports are available in the Investor Relations section of the cogeco.ca website or upon request by calling (514) 874-2600.

Des versions françaises du rapport annuel, de la notice annuelle et des rapports trimestriels sont disponibles à la section Relations avec les investisseurs du site Internet cogeco.ca ou sur demande au (514) 874-2600.

Investors and Analysts
For financial information about the Company, please contact the Department of Finance.

Shareholders
For any inquiries other than a change of address, financial information or a change of registration of shares, please contact the Legal Affairs Department of the Company.

Duplicate Communications
Some shareholders may receive more than one copy of publications such as Quarterly Reports and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise National Bank Trust.

Whistle blowing procedures regarding accounting, internal accounting controls or auditing matters

Any employee of COGECO Inc. or of any of its subsidiaries with concerns regarding questionable accounting or auditing matters may submit a complaint on such concerns on a confidential basis, with protection from reprisals, to the Chief Legal Officer of the Company, or directly to the Board Chair where there is reason to believe that an organized offence has been authorized at a high level or that reprisals would be authorized at a high level. These complaints will be reviewed as to substance and materiality under the direction of the Audit Committee and the oversight of the Chief Legal Officer or the Board Chair as the case may be, the Internal Auditor or such other persons as the Audit Committee determines to be appropriate.

COGECO CABLE INC.

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Vice President, Telecommunications

Denis Bélanger
Vice President,
Engineering and Development

Gaston Germain
Vice President, Ontario

Jules Grenier
Vice President, Québec

Hélène Laurin
Vice President,
Administration and Control

Ron A. Perrotta
Vice President,
Marketing

Louise St-Pierre
Vice President and
Chief Information Officer

RADIO AND TELEVISION

Cogeco Radio-Télévision Inc.
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René Guimond
President and Chief Executive Officer

Radio

Cogeco Diffusion Inc.

Richard Lachance
Vice President

RYTHME FM Network

André St-Amant
Vice president, Programming

105.7 RYTHME FM
Laval/Montréal (Québec)

Richard Lachance
General Manager

91.9 RYTHME FM
Québec (Québec)

Jean-Paul Lemire
General Manager

93.7 RYTHME FM
Estrie (Québec)

Michel Cloutier
General Manager

100.1 RYTHME FM
Mauricie (Québec)

Michel Cloutier
General Manager

93^3
Québec (Québec)

Jean-Paul Lemire
General Manager

Television

TQS Inc.
CFJP-TV
Montréal (Québec)

René Guimond
President and
Chief Executive Officer

Thérèse David
Vice President, Communications

Luc Doyon
Vice President,
Programming and Information

Monique Lacharité
Executive Vice President,
Finance and Administration

Guy Meunier
Vice President, Sales

CKSH-TV/CFKS-TV
Sherbrooke (Québec)

Michel Cloutier
General Manager

CKTM-TV/CFKM-TV
Trois-Rivières (Québec)

Michel Cloutier
General Manager

CKTV-TV/CFRS-TV
Saguenay (Québec)

Martin Gagnon
General Manager

CFAP-TV
Québec (Québec)

Renauld Francœur
General Manager

Captions:
Page 8—Laviolette Bridge: Robert Calvé, Trois-Rivières (Québec)
Page 9—Niagara Falls: Joan West, Bainsville (Ontario)

COGECO

www.cogeco.ca

COGECO

COGECO CABLE INC.

A World to Build

Annual Report 2005

1,355,818
Revenue-Generating Units

A World to Build

Since its first acquisition in 1972, Cogeco Cable has never stopped growing. Increasing the number of services, extending our territory, continually expanding our expertise, we do everything to respond to our ever-growing clientele's needs and to offer the best there is in terms of diversity and quality of services at the fairest possible price. We offer flexibility, speed, quality, reliability and choice to better serve our clientele.

Today Cogeco Cable ranks second among cable system operators in Ontario and Québec, and fourth in Canada in terms of the number of basic service customers. This enviable position is largely attributable to the confidence our clients place in us, to a team of dedicated employees present in their communities, and to the ability to capitalize on growth opportunities. Cogeco Cable became a public company in 1993, and aims to increase the profitability of the business on behalf of its shareholders while satisfying its clients' communications needs.

A Winning Formula

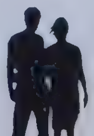
Cogeco Cable has built a solid reputation. Since 1972, strong organic growth coupled with the acquisition of nearly 35 companies have seen the Corporation's number of revenue-generating units rise from 25,000 to nearly 1.4 million, helping to make Cogeco Cable one of the most important players in the industry. Our growth has been even stronger and more decisive since 1987, with our clientele doubling three times over the past 18 years.

At Cogeco Cable, growth means more than simply acquiring companies in order to boost revenues. We are also committed to consolidating our experience and developing our products and services. It is these elements combined that have contributed to increasing our capacity, and that of our team, for continued growth.

A Bright Future Ahead

The rapid and stimulating evolution of technology, as well as the abundance of products and services that it engenders, are the guarantees of value-added, both for our clientele and for our shareholders. We continue our efforts toward customer satisfaction and loyalty through the development of a service offering that responds best to their expectations, while ensuring rigorous costs control and efficient management of capital.

At Cogeco Cable, growth is the future. Piece by piece, we continue to build on solid foundations, through acquisition, consolidation, new products and services development and introductions, a capable team, as well as an unwavering dedication to improving customer service.



Communicate, Inform, Entertain

With the enhancement of its product and service offering, Cogeco Cable pursues its objective of growth and innovation.

Choice and Flexibility

Television

Cogeco Cable television means information and entertainment for every taste. It means more channels, including new high-definition (HD) channels for unrivaled quality over a wider segment of our territory. It also means more theme packs like *SuperSports Pack*, the *Medley Pack*, the *HD Theme Pack* in Ontario and *Passeport destinations* in Québec, as well as international channels such as *RAI* for a broader overview on the world. And it means easy, interactive navigation through the multitude of channels via the new *iGuide*, now offered in Ontario and coming soon to Québec. A whole host of possibilities at your fingertips.

The interactive nature of cable is unique. Cogeco Cable improves its video-on-demand (VOD) offering by increasing the capacity of its servers from 800 to 1,600 hours and by concluding agreements with the principal players in the video production and distribution industry. Warner Bros International Television Distribution, MGM, Universal Studios, Sony Pictures Television International, Alliance Atlantis and many others: a choice that satisfies every one of our customers. And Cogeco Cable's subscription video-on-demand is the best available for entertainment and information to enjoy in the comfort of your living room, and at the time you choose.

Speed and Security

High-speed Internet (HSI)

In 1995, Cogeco Cable launched the first HSI service in Canada. At the time, our customers benefited from a speed of 500 kilobits per second, well above what was then available by the competition.

Since that already far-away time in the world of the Internet, Cogeco Cable has maintained its position as leader in the field by offering the highest speed in its markets no matter what service is selected. Today with speeds of up to 10 megabits per second (Mbps), Cogeco Cable's HSI service provides our customers with unique value-added at a competitive price. With the addition of F-Secure security products, the world leader in virus protection and intrusion prevention, Cogeco Cable facilitates its customers' tasks, allowing them to surf the Internet and receive e-mails with greater security. Free for Standard and Pro customers, and at a low cost for Mini customers, this suite of security products guarantees them peace of mind.

Secure, fast, reliable and adaptable, Cogeco Cable's HSI adjusts to customers' usage habits.

Savings and User-friendliness

Digital Telephony

Cogeco Cable recently added digital telephony service to its product offering. This turnkey service allows our customers substantial savings. Simple and wide-ranging, this offering includes the most popular telephony functions and assistance services. It also provides great reliability thanks to a battery that ensures up to eight hours of stand-alone service on the customer's modem in case of electrical power failures, not to mention customer service and expert installation by professionnal technicians. Launched in June 2005, our new service, already widely enjoyed, is being offered gradually across the Corporation's various territories.

A Winning Bundle

Television, HSI and digital telephony: THE combination

Cogeco Cable offers its customers an easy route to entertainment and information thanks to a complete offer: television, HSI and digital telephony. One bill, one warm and courteous contact point, substantial savings and products and services of excellent quality, this is what we offer to Cogeco Cable customers. Our bundles are attractive and appeal to the majority of our customers due to the savings and ease of use. Two or even three services, that's a good way to measure the enthusiasm of our customers.

And the Growth Goes On...

In the world of television, the near future is teeming with innovations, both in terms of on-demand content and of continued expansion of the digital and HD offerings.

Internet access will be even more secure with the upcoming addition to the F-Secure products of an anti-spyware, a pop-up blocker function and numerous improvements to existing functionality.

Technology will continue adapting to new transmission methods and to customers' ever-increasing requirements. Migration of systems toward the DOCSIS 3.0 standard will soon allow transmission speeds of 200 Mbps. Switched digital broadcast will allow improved service and better bandwidth utilization.

Year after year, Cogeco Cable enriches its offering, provides new services and products and increases the efficiency of its hardware and its network in order to respond to current and future customers' needs. It is this determination to always offer the best there is that has made Cogeco Cable what it is, and that ensures it a foundation of growth and prosperity.

Building Together

Behind an enterprise's products and services, there are people. These employees who day after day ensure customer satisfaction and the return on shareholders' assets.

At Cogeco Cable, our employees are the strength of our business, and they are always striving to offer the finest service possible. Their team spirit and dedication constitute an assurance for our shareholders, since they take the Corporation's growth and its future to heart. Through all of our acquisitions, Cogeco Cable has been able to integrate its new members and to create a solid business. Combining passion and loyalty, our employees work together with enthusiasm, dedication and talent to create value for our customers and for our shareholders.

Our Board of Directors embodies experience, creativity and rigour. Our handpicked directors ensure compliance to Cogeco Cable's best practices and contribute to its growth through their *savoir-faire*, their long experience in business and their sense of innovation. The rules of governance implemented are rigorously followed and evaluated. They are the assurance of the Corporation's integrity.

Present and Involved

Cogeco Cable maintains a long tradition of partnership with the communities in which it operates.

Since its founding, the Corporation has acted as a true partner by becoming involved in various fields: health, education, arts, and social or community causes, depending on needs.

In addition, Cogeco Cable's employees take the improvement of their communities to heart. Many offer their time, their talents and dedication to various causes, whether as members of Boards of Directors, occasional helpers or ongoing volunteers.

With its 36 local television stations, *TV*COGECO broadcasts programming that reflects the concerns of its communities in each of its markets. With the help of numerous volunteers who learn about the world of television broadcasting, *TV*COGECO produces informative and entertaining local programming, including public affairs and live coverage, that is exclusive to Cogeco Cable customers.

In 2005, *TV*COGECO enjoyed major successes with network broadcasting of Québec Major Junior Hockey League hockey matches and of *Secondaire en spectacle* in Québec, Ontario Hockey League coverage and the first annual Canadian Smooth Jazz Awards, in Ontario. Along with these achievements, add the debates of many municipal councils, fund-raising activities and other unique productions. *TV*COGECO is very much rooted in the communities: one of every two customers watches it and its broadcasts provided free on VOD are extremely popular.

Contents

Profile

Cogeco Cable is a cable television company with shares listed on the Toronto Stock Exchange under the symbol CCA.SV.

Cogeco Cable is evolving into one of Canada's major telecommunications companies, by building on its cable distribution base with the offering of analog, digital television, high-speed Internet and digital telephony services.

Cogeco Cable provides 1,355,818 revenue-generating units to the 1,448,733 households passed by its cable network in the territories it serves. It is the second largest cable system operator in both Ontario and Québec and the fourth largest in Canada.

Cogeco Cable focuses its attention on the satisfaction of customers' varied electronic communication needs by investing in state-of-the-art broadband network facilities, delivering a wide range of services over these facilities with great speed and reliability at attractive prices, and striving to provide both superior customer care and growing profitability.

GLOSSARY

Digital services: digital video services

DVR: digital video recorder
(same as Personal Video Recorder or PVR)

HD: high-definition

HSI: high-speed Internet services

HSI Lite: high-speed Internet service with download speed of up to 300 Kbps

HSI Pro: high-speed Internet service with download speed of up to 10 Mbps

HSI Regular: high-speed Internet service with download speed of up to 6 Mbps

IP: Internet Protocol

Mbps: megabits per second

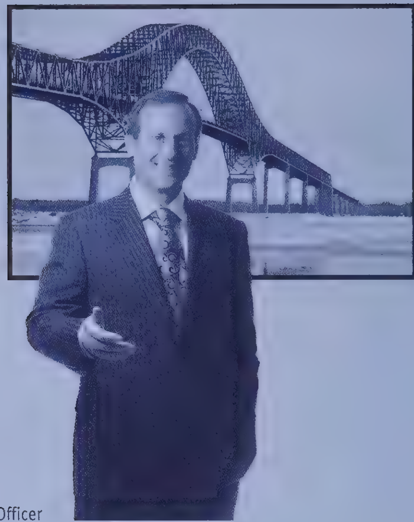
RGU (revenue-generating units): includes basic service, HSI service, digital service and digital telephony service customers

SVOD: subscription video-on-demand services

VOD: video-on-demand services

(in thousands of dollars, except rates of return and ratios, customers and terminals, per share data and percentages)	**2005** **$**	2004 $	Change %
Operations			
Revenue	**554,404**	526,480	5.3
Operating Income[1]	**227,521**	203,246	11.9
Net income (loss)	**28,721**	(32,194)	—
Cash Flow			
Cash flow from operations	**170,938**	144,778	18.1
Free Cash Flow[1]	**45,267**	43,534	4.0
Financial Condition			
Total assets	**1,755,796**	1,761,379	(0.3)
Indebtedness[2]	**692,481**	758,133	(8.7)
Shareholder's equity	**689,484**	663,534	3.9
Rates of Return and Ratios			
Operating Margin[1]	**41.0 %**	38.6 %	
Return on Equity[1]	**4.2 %**	(4.7)%	
Indebtedness on Operating Income	**3.0**	3.7	
Interest coverage	**4.1**	3.5	
Customers and Terminals			
RGU	**1,355,818**	1,271,899	6.6
Basic service customers	**821,433**	823,855	(0.3)
Percent of penetration	**56.7 %**	57.9 %	
HSI service customers	**277,648**	239,608	15.9
Digital service customers	**255,289**	208,436	22.5
Digital telephony service customers	**1,448**	—	—
Digital terminals	**303,884**	240,071	26.6
Per Share Data (basic)			
Net income (loss)	**0.72**	(0.81)	—
Cash flow from operations	**4.28**	3.63	17.9
Weighted average number of outstanding shares (in thousands)	**39,965**	39,902	0.2

(1) The indicated terms are not defined under Canadian Generally Accepted Accounting Principles (GAAP) and may not be comparable to other measures presented by other companies. Refer to page 13 of the Management Discussion and Analysis for a detailed description of non-GAAP measures.
(2) Indebtedness is defined as bank indebtedness plus long-term debt.



Louis
Audet
President and Chief Executive Officer

Message to Shareholders

Dear Friends:

Cogeco Cable is reporting highly satisfactory results for fiscal 2005. The watchwords of customer service and financial performance which we launched last year have been followed, and we are pleased to present the fruit of our labours.

As a result, for the fiscal year ending August 31, 2005, the Corporation's Operating Income is $227.5 million, an increase of 12% compared to fiscal 2004. Net income stands at $28.7 million and has more than tripled compared to fiscal 2004, excluding the accounting adjustments and the impact of changes in taxation rates in Ontario in fiscal 2004. Free Cash Flow stands at $45.3 million, compared to $43.5 million for fiscal 2004.

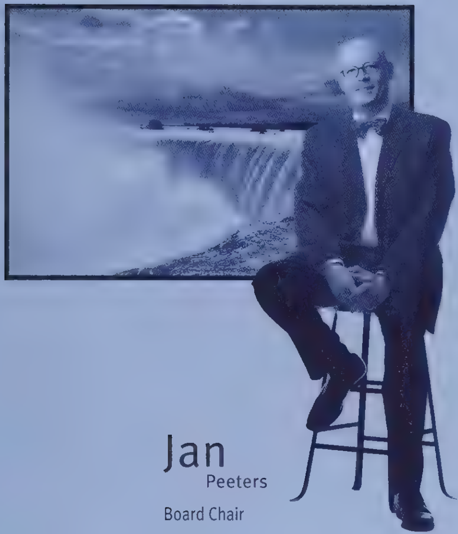
Our market position is strengthening and our financial performance is improving. An increase in our Free Cash Flow has enabled us to reduce our debt ratio. That increase, the improvement in profit margins and prospects for growth have pushed our stock price up and put Cogeco Cable in a favourable market position. The Corporation's current growth and auspicious prospects support growth in its value.

Cogeco Cable: Growing Value

Customers, services and performance

This growth is a matter of record. Since it made its first acquisition in the cable television sector in 1972, the Corporation has grown from 25,000 to 1.4 million RGUs. Between 1972 and 2001 the Corporation made nearly 35 acquisitions and its territory now extends from Windsor, Ontario to Sept-Îles, Québec. Cogeco Cable has succeeded in integrating more than 1,400 employees, pooling their talent and experience in order to reach its objectives.

Since it was founded, the Corporation has doubled its customer base three times through two-pronged growth: organic and acquisition. Today, at the end of the fiscal year, the number of basic service customers stands at more than 821,000. RGU stands at nearly 1,356,000, a 7% growth compared to last year, despite a loss of about 2,400 basic service customers which was largely due to long distance telephone bundled service plans offered by the competition from June 2004 to July 2005, when the plans were withdrawn. Notwithstanding this initiative on the part of our competitors, we maintained our disciplined approach to pricing and market offers and were thus able to increase, at the same time, our Operating Margin, net income and Free Cash Flow, contributing to a 59% rise in the stock price in the space of one year!



Jan
Peeters
Board Chair

The Corporation shows financial strength progression. Revenue have been growing steadily since Cogeco Cable's incorporation in 1992. As a result, we have improved the return on shareholders' equity from 1.9% in fiscal 2004, excluding accounting adjustments and the impact of changes in taxation rates in Ontario, to 4.2% in 2005 and we still aim to reach 10% within the next few years.

In 2005, Cogeco Cable maintained sustained growth by investing in customer satisfaction. Our HSI and digital customer base is expanding quickly and has exceeded our expectations with growth of 15.9% and 22.5% respectively compared to 2004, reaching approximately 278,000 and 255,000 customers as of the end of fiscal 2005. During fiscal 2005, we have added many digital tiers, expanded the offer of HD and VOD channels, launched a free SVOD offer for our pay television customers, launched the F-Secure security products for our Internet customers and expanded our Internet Lite service offering beyond Ontario on a customer acquisition basis in Québec. Finally, we launched digital telephony service during the fourth quarter. This latter service expands our line of products and services and gives our customers the best quality/price ratio thanks to an offer that is complete, easy to understand and competitive. As of October 31, 2005, our digital telephony service was available in 24% of the territories served by the Corporation. The service has got off to a very positive start beyond our expectations, with nearly 2,500 customers, including pending orders, at the end of the fiscal year. Offered to all households, this service will be extended to most of our major markets by August 2006.

We are continuing to expand our VOD service, whose capacity has increased from 800 to 1,600 hours, concrete evidence of the Corporation's determination to support its customers in their migration from scheduled television to television on demand. As of August 31, 2005, 31% of Cogeco Cable's basic service customers have chosen the digital service.

Our organic growth is ongoing and we have every intention of pursuing our efforts in that direction. Constantly improving products and services will form the foundation of our growth, along with marketing efforts that are targeted even more specifically. We wish to increase our knowledge of those who purchase our products and services and find out their expectations as far as communications are concerned. Our knowledge of our market trends and customer expectations will influence our business decisions.

Hence we are ready to maximize internal and external growth opportunities in order to ensure the Corporation's continued development, in the interest of our shareholders.

Renewed Internal Processes

We are pursuing our continuous improvement efforts in compliance with Bill 198 and the associated regulations. This strategic plan focuses on the improvement of our controls and processes to ensure disclosure of financial information in accordance with increasing demands from investors and shareholders. The resulting operational improvement is designed to secure a stronger market position and added value for shareholders.

In the same line of thought, it is worth noting the significant improvement achieved by Cogeco Cable in the area of corporate governance. According to the annual review of corporate governance practices which appeared in the Globe and Mail in October 2004, Cogeco Cable was one of the companies that showed the greatest improvement in its governance practices in Canada and the position of the Corporation in this respect is maintained in October 2005. Our Board of Directors and the officers of the Corporation continue to make corporate governance an essential criterion for decision-making and for the Corporation's growth.

2006: a Year of Growth

The future holds great possibilities for the cable industry. The 2006 fiscal year will be an opportunity for us to consolidate our avenues of growth, both by expanding and improving our product and service line and through potential acquisitions.

Having surpassed most of our objectives for 2005, as shown by the increases in Operating Income, net income and the number of HSI and digital customers, we at Cogeco Cable will forge ahead. We anticipate 36% growth in net income and a 5.5% Return on Equity despite the launch of several promising new services.

During the next fiscal year, we shall continue our search for new growth opportunities. Apart from launching new products and approaching new clientele, in particular by expanding our telephony offer, we shall be on the lookout for any external growth opportunity that might meet the Corporation's objectives. Therefore, Cogeco Cable examines opportunities for acquiring cable networks with a critical mass of customers in attractive territories, in or outside Canada, at a fair price, whenever they arise, always with a view to increasing the potential for growth and corporate value.

In a more distant future, the migration of our IP platform to the DOCSIS 3.0 standard will make transmission speeds of up to 200 Mbps possible. Switched digital broadcasting will provide improved video service and better bandwidth use. As for digital telephony, it will generate numerous applications that, until recently, were in the realm of science fiction.

A Tradition of Growth

Cogeco Cable's objective is to maintain sustained and profitable growth from year to year, both from organic and external sources. This approach will continue to prevail in 2006 and in future fiscal years.

The invaluable contribution of the Board of Directors deserves mention. The Board provides enlightened leadership, particularly in the areas of corporate governance, results tracking and strategic planning, and we are profoundly grateful to the Directors.

One of the members on the Board of Directors will not be seeking a new mandate at the December 2005 Shareholder's Meeting. Mr. Pierre Robitaille, a member of the Board since 2002, has earned our most sincere gratitude for his contributions to the Board of Directors which includes serving as member of the Audit Committee and of the Human Resources Committee.

In all these efforts, the contribution of our valued partners, the employees of Cogeco Cable, enables the Corporation to move forward in a harmonious and successful fashion. The qualities that they possess, such as flexibility, passion, commitment and discipline, are what make Cogeco Cable a growth company, resolutely turned towards the future, and we extend our warm thanks.

At Cogeco Cable, growth is the result of expansion, consolidation, development, new products and services introduction, all supported by competent and committed employees constantly moved by the desire to improve customer service.

Louis Audet
President and Chief Executive Officer

Jan Peeters
Board Chair

The following analysis discusses our operations, financial condition and outlook. This analysis should be read in conjunction with the Corporation's consolidated financial statements and the notes thereto prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which start on page 29. Throughout this discussion, all amounts are in Canadian dollars unless otherwise indicated. The Management's Discussion and Analysis (MD&A) is presented in the following sections:

FORWARD-LOOKING STATEMENTS

Certain statements in this annual report may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to our future outlook and anticipated events, our business, our operations, our financial performance, our financial condition or our results and, in some cases, can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding our future operating results and economic performance, our objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which we believe are reasonable as of the current date. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect. Forward looking-information is also subject to certain factors, including uncertainties and main risk factors, which are described in a separate section starting on page 17 of this MD&A, that could cause actual results to differ materially from what we currently expect. These factors include technological changes, changes in market and competition, governmental or regulatory developments, general economic conditions, the development of new products and services, the enhancement of existing products and services, the introduction of competing products having technological or other advantages, many of which are beyond our control. Therefore, future events and results may vary significantly from what we currently foresee. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation (and expressly disclaim any such obligation) and do not undertake to update or alter this information before the Corporation's next fiscal quarter.

OVERVIEW OF OUR BUSINESS

Cogeco Cable is the second largest cable system operator in Ontario and Québec and ranks fourth in Canada in terms of the number of basic service customers. The Corporation's activities are based on its strong and reliable cable network which provides basic service to about 821,000 customers, digital services to about 255,000 customers and HSI services to about 278,000 customers. Cogeco Cable recently added digital telephony to its offer, and has nearly 2,500 customers including pending installations to that service.

Corporate Strategies and Objectives

All of Cogeco Cable's business objectives are based on the improvement of profitability and the creation of shareholder value. The preferred strategies for reaching those objectives are constant corporate growth through the diversification of products and services as well as of clientele, effective management of capital, tight cost control and continual improvement of its business and control processes.

Sustained Corporate Growth

Cogeco Cable's primary strategy is based on sustained corporate growth through continuing diversification of both its product offer and its clientele. Customer surveys, trend analysis and developments in the industry, together with constantly improving customer service, are the building blocks for improving its offer. Furthermore, Cogeco Cable has a history of integrating many companies that work towards the same end to fulfill consumers' telecommunications needs. Since 1972, when it first entered the cable industry, nearly 35 companies and hundreds of thousands of customers have joined Cogeco Cable.

Diversification and Improvement of Products and Services

The product and service offer is adjusted regularly to meet the demands of the Corporation's various clientele. Accordingly, the Corporation offers a line of telecommunications products, i.e. television, which provides, access to analog, digital, HD, VOD and SVOD; the fastest HSI access in its markets and, just recently, digital telephony, a service that is comparable to conventional telephone service but costs less. The offer is supported by increasingly targeted marketing in order to reach ever more specific market segments. This strategy generates significant growth with the existing clientele.

Diversification of Clientele

By diversifying its offer, Cogeco Cable attracts new clientele. Better informed and more comfortable with technology, customers are seeking products and services that meet their specific needs. Cogeco Cable is on the lookout for new developments and product improvements in order to serve its customers better and to acquire new ones. The Corporation also remains open to any acquisition opportunities that may arise, in or outside of Canada, provided that they bring in a significant number of customers at a fair price to increase the Corporation's growth and value.

Effective Capital Management

A capital committee, comprised of the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer, the Vice President, Engineering and Development as well as the Vice President, Marketing, establishes the Corporation's investment strategy and regularly examines the allocation of capital. Projects aligned with our strategy and providing acceptable risk-adjusted return on investment are thus effectively prioritized. Return on investment is assessed giving consideration to the expected additional revenue and Operating Income as well as cost savings. These analyses are carried out on a case-by-case basis and by individually affected cable systems, if required.

Tight Cost Management

To maximize the Corporation's profitability and its value for shareholders, Cogeco Cable continues to exercise strict control over its spending. This strategy enables the Corporation to become more efficient while at the same time reducing its costs, thereby making its offer even more attractive to customers. The resulting decrease in operating costs has a positive impact on the profit margin and on the return to shareholders.

Anticipated Results of these Strategies

The above-described strategies should result in increased profitability and reduced Indebtedness, as measured according to the following criteria. These criteria are described in greater detail in "Fiscal 2006 Financial Guidelines" on page 28:

- Cogeco Cable expects to increase its revenue between 6% and 7%, compared to 5% in 2005, due to increased penetration of HSI and digital services in 2005 and 2006, the launch of digital telephony and the rate hikes implemented in June and in August.
- Free Cash Flow in the order of $35 to $40 million should be generated. It will be used primarily to reduce the debt and therefore improve the Corporation's leverage ratios.
- RGUs should grow by 8% to 10% compared to the 7% increase experienced in fiscal 2005. As penetration of HSI services increases, the growing demand for this offering should diminish. However, demand for digital services is expected to remain stable and demand for digital telephony should increase significantly.

Cable Networks

Digital and VOD services are available to 98% and 87% of households, respectively, and 89% of households passed are served by a two-way cable plant. Cogeco Cable's fiber optic network extends over 8,100 kilometres and includes 79,200 kilometres of optical fiber. Cogeco Cable has deployed optical fiber to nodes serving clusters of typically 1,500 households, with many fibers per node in most cases, which allows the Corporation to further extend the fiber plant to smaller clusters of 500 households rapidly with relative ease. Node splitting leads to further improvement in the quality and reliability of services and allows for increasing traffic of two-way services such as HSI and VOD.

Cogeco Cable is still using the DOCSIS 1.1 standard (Data Over Cable Service Interface Specifications) for its IP platform. DOCSIS 1.1 allows the prioritization of the signal packets that must be transmitted in real time, such as those of digital telephony service, so as to ensure a continuous transmission flow. When appropriate, the DOCSIS 2.0 transmission mode can be activated to increase the speed and capacity of the return path, thus making it possible to provide very high speed symmetrical services, which are particularly well suited for commercial customer applications. It is also more robust, allowing for the use of portions of the return path spectrum that are normally not useable in a DOCSIS 1.1 mode. In addition, the cable industry, in collaboration with CableLabs, is in the process of developing a new standard, DOCSIS 3.0, compatible with the earlier versions and will make it possible to increase IP transmission speeds even more, up to 200 Mbps.

Key Performance Indicators

Cogeco Cable is dedicated to increasing shareholder value and consequently focuses on optimizing profitability while efficiently managing its use of capital without jeopardizing future growth. The following key performance indicators are closely monitored to ensure that business strategies and objectives are closely aligned with shareholder value creation. The key performance indicators are not measurements in accordance with Canadian GAAP and should not be considered an alternative to other measures of performance in accordance with GAAP. The Corporation's method of calculating key performance indicators may differ from other companies and, accordingly, these key performance indicators may not be comparable to similar measures presented by other companies.

Income Before Income Taxes Per Home Passed and Return on Equity

Income before income taxes per home passed provides key insights on how Cogeco Cable maximizes the value of its franchises. Excluding income taxes from the profitability measure removes an often volatile and non-controllable factor. The "per home passed" concept measures Cogeco Cable's effectiveness in improving profitability in its franchised areas.

Return on Equity is defined as net income or loss divided by average shareholders' equity (computed on the basis of the beginning and ending balance for a given fiscal year). Return on Equity measures the Corporation's effectiveness in generating net income on a given capital base from our shareholders. Cogeco Cable's key goal in the coming years is to achieve a return on equity of 10%.

Operating Income Growth and Operating Margin

Operating Income is calculated as operating income before amortization and unusual items that are non-recurring revenue or expense items such as restructuring charges and gains or losses on asset disposals. Operating Margin is calculated by dividing Operating Income with revenue. Operating Income growth and Operating Margin are benchmarks commonly used in the telecommunications industry, as they allow comparisons with companies that have different capital structures and are more current measures since they exclude the impact of historical investments in assets. Operating Income indicators assess Cogeco Cable's ability to seize growth opportunities in a cost effective manner, to finance its ongoing operations, and to service its debt. Operating Income is a proxy for cash flow generated from operations excluding the impact of the capital structure chosen. Consequently, Operating Income is one of the key metrics used by the financial community to value the business and its financial strength.

Free Cash Flow

Free Cash Flow is defined as cash flow from operations less capital expenditures (including assets acquired under capital lease that are disclosed in Note 12b) on page 50 which are not reflected in the statements of cash flow) and increase in deferred charges. The financial community also closely follows this indicator since it measures the business' ability to repay debt, distribute capital to its shareholders and finance its growth.

RGU Growth and Penetration of Service Offerings

RGU expansion is a critical driver of revenue growth and measures the success of the marketing strategy and the competitiveness of the service offering and pricing. Penetration statistics measure Cogeco Cable's market share. Cogeco Cable computes the penetration for basic services as a percentage of homes passed and, in the case of all other services, as a percentage of basic customers in the cable systems where the service is offered.

Customer Churn

Customer churn provides a key measure of customer satisfaction and the effectiveness of loyalty programs. A retention focus is more cost-effective than ongoing heavy acquisition efforts with low retention success.

Productivity Indicators

Operating expenses per RGU is a prime measure of productivity as RGU is the key driver of revenue growth. Cogeco Cable strives to achieve strong RGU growth while closely monitoring its cost structure.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to adopt accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and revenue and expenses during the reporting year. A summary of the Corporation's significant accounting policies is presented in Note 1 on page 34 of the consolidated financial statements. The following accounting policies were identified as critical to Cogeco Cable's business operations:

Revenue Recognition

The Corporation considers revenue to be earned as services are rendered, provided that ultimate collection is reasonably assured. The Corporation earns revenue from several sources. The recognition of revenue from the principal sources is as follows:

- Monthly fees from cable television and related services, from HSI access services and from digital telephony are recognized when services are provided on a pro rata basis over the month.
- Since management considers the sale of home terminal devices as a single unit of accounting of a multiple element arrangement, equipment revenue are recorded upon activation of the service.
- Installation revenue is deferred and amortized over the average life of a customer's subscription, which is four years. Management considers that installation revenue is part of a multiple element arrangement and has no standalone value. Accordingly, installation revenue is deferred and amortized at the same pace as cable television, HSI services and digital telephony monthly fees are earned.
- Promotional offers are accounted for as a deduction of revenue when customers are taking advantage of such offer.

Allowance for Doubtful Accounts

A large proportion of the Corporation's revenue are earned from individual customers. Accordingly, allowance for doubtful accounts is calculated by examining such factors as the number of overdue days of the customer's balance owing as well as the customer's collection history with Cogeco Cable. As a result, conditions causing fluctuations in the aging of customer accounts will directly impact the reported amount of bad debt expenses.

Capitalization of Direct Labour and Overhead

As outlined in the recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to property, plant and equipment, capitalization of costs includes the expenditures to acquire, construct, develop or improve an item of property, plant or equipment, and includes all costs directly attributable to those activities. The cost of an item includes direct construction or software development costs, such as materials and labour, and overhead costs directly attributable to the construction or software development activity. The cost to enhance the service potential of an item is considered an improvement and as a result is capitalized. Costs incurred in the maintenance of service potential are expensed.

Cogeco Cable capitalizes direct labour and direct overhead costs incurred to construct new assets, enhance existing assets and connect new customers. Although capitalization of financial expense is permitted for construction activities, it is the Corporation's policy not to capitalize them.

Amortization Policies and Useful Lives

Cogeco Cable amortizes fixed assets over the estimated useful lives of the items. In estimating useful lives, the Corporation considers such factors as life expectancy of the assets, changing technologies and cable industry trends. The Corporation reviews its useful lives estimates on a regular basis. If changes in the above-mentioned factors happen more quickly than anticipated, Cogeco Cable might have to shorten the estimated life of certain assets, which could result in a higher amortization expense in future periods.

Capitalization of Launch Costs, Costs to Acquire Customers and Subsidies on Equipment

The Corporation incurs significant marketing costs during the launch of new services, such as new digital tiers, VOD, HSI and digital telephony services. These costs are capitalized and amortized over a period of five years, the estimated period during which these costs are to provide benefit. Our experience indicates that it takes approximately five years for the new services to reach a certain maturity level.

In addition, significant costs are incurred to reconnect customers and to attract new cable, HSI and digital telephony customers. These costs include material and labour costs incurred to reconnect customers as well as subsidies given to customers on the sale of home terminal devices. Reconnect costs are capitalized up to a maximum amount not exceeding the revenue generated by the reconnect activity. These costs are amortized over a period of four years, which represent the average life of a customer's subscription since no term is specified for which the customer will receive the services. The average life of a customer's subscription is reviewed annually and changes could have a significant impact on the amortization expense.

Impairment of Long-Lived Assets

The valuation of all long-lived assets is subject to annual review for impairment or whenever significant events or changes in circumstances occur, to determine if carrying value can be recovered. In conducting impairment testing, the Corporation compares the carrying value to the sum of undiscounted cash flows. Future cash flows are based on internal forecasts and consequently, considerable management judgment is necessary to estimate future cash flows. Significant changes in assumptions could result in impairment of these assets. The Corporation's impairment test is performed as at August 31 of each fiscal year.

Impairment of Customer Base

The valuation of customer base is subject to review for impairment annually or whenever significant events or changes in circumstances occur, to determine if carrying value can be recovered. In conducting impairment testing, the Corporation compares the carrying value to the sum of discounted cash flows. Future cash flows are based on internal forecasts and discounted by using a weighted average cost of capital rate. Considerable management judgment is necessary to estimate future cash flows. Significant changes in assumptions could result in impairment of this asset. The Corporation's impairment test is performed as at August 31 of each fiscal year.

Income Taxes

The Corporation uses assumptions to estimate income tax expenses as well as future income tax liabilities. This process includes estimating the actual amount of income taxes payable and evaluating income tax loss carry-forwards and temporary differences as a result of differences between the value of the items reported for accounting and tax purposes. Realization of future income tax assets is dependant upon generating sufficient taxable income during the period in which temporary differences are deductible. The likelihood of realization of future income tax assets is evaluated by considering such factors as estimated future earnings based on internal forecasts, prudent and feasible tax planning strategies and reversal of temporary differences that result in future income tax liabilities. Future income tax assets and liabilities are calculated according to enacted or substantially enacted income tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Accordingly, changes in assumptions will directly impact the reported amount of income tax expenses.

Contingencies and Commitments

The Corporation is subject to various claims and contingencies related to lawsuits, taxes and commitments under contractual and other commercial obligations. The contractual and other commercial obligations primarily relate to network fees and operating lease agreements for use of transmission facilities. The Corporation recognizes liabilities for contingencies and commitments when a loss is probable and can be estimated. Significant changes in assumptions as to the likelihood and estimates of a loss could result in the recognition of an additional liability.

Related Party Transactions

Cogeco Cable is a subsidiary of COGECO which holds 39.2% of the Corporation's equity shares. As of September 1, 1992, Cogeco Cable executed a management agreement with COGECO under which the parent company agreed to provide certain executive, administrative, legal, regulatory, strategic and financial planning services and additional services to the Corporation and its subsidiaries (the "Management Agreement"). These services are provided by COGECO's officers, including the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer and the Vice President, Corporate Affairs. No direct remuneration is payable to such officers by the Corporation. The Corporation granted 38,397 stock options to its officers, who also are COGECO's officers, during the 2005 fiscal year, compared to 48,037 in the 2004 fiscal year.

Under the Management Agreement, the Corporation pays monthly fees equal to 2% of its total revenue to COGECO for the above mentioned services. In 1997, the management fee was capped at $7 million per year, subject to annual upward adjustments based on increases in the Consumer Price Index in Canada. Accordingly, for the year ended August 31, 2005, the maximum amount of $8.2 million was paid to COGECO, compared to $8 million in 2004, which represents about 1.5% of the Corporation's total revenue, for both fiscal years. The Audit Committee of the Corporation can increase the cap under certain circumstances upon request to that effect by COGECO. In addition, the Corporation reimburses COGECO's out-of-pocket expenses incurred in respect to services provided to the Corporation under the Management Agreement. In fiscal 2006, the management fee will be increased, pursuant to the Management Agreement, by 2.6% which is equal to the increase in the Consumer Price Index in Canada.

Adoption of New Accounting Standards

Fiscal 2004

Revenue Recognition

During the third quarter of fiscal 2004, Cogeco Cable adopted the CICA's Emerging Issues Committee Abstracts 141 and 142 issued in December 2003, regarding the timing of revenue recognition and certain related costs and the classification of certain items such as revenue, expense or capitalized costs. Consequently, Cogeco Cable adopted the following changes:

- Installation revenue is now deferred and amortized over the average life of a customer's subscription, which is four years. Previously, these revenue were recognized immediately as they were considered a partial recovery of direct selling costs incurred. Upon billing, the portion of unearned revenue is now recorded as deferred and prepaid income.
- The costs to reconnect customers are now recorded as deferred charges up to a maximum amount not exceeding the revenue generated by the reconnect activity, which are included in installation revenue, and amortized over the average life of a customer's subscription, which is four years. Previously, these costs, which include materials, direct labour and certain overhead charges, were capitalized to fixed assets and generally amortized over a period of five years.
- Revenue from the sale of home terminal devices at a subsidized price, which were recorded as a partial recovery of costs, are now recorded as equipment revenue with an equal amount included in operating costs.
- The portion of advertising expense incurred to expand the digital and HSI customer base that used to be recorded as a deferred charge is now recorded as an operating cost.

As a result of the above changes, Operating Income was adjusted downward by $8 million in fiscal 2004. The adjustments related to the reversal of capitalized advertising expense and reconnection costs amounted to $3.7 million and $1.2 million in fiscal 2004. Cogeco Cable has decided to apply these changes retroactively to enhance the comparability of its financial disclosure. The changes, relating to revenue recognition, had the following impact on our financial results and cash flow for fiscal 2004 and financial position as at August 31, 2004 presented in the table below.

Other Accounting Standards

Information on the adoption of other accounting standards during fiscal 2004, which did not have a significant impact on the financial statements of the Corporation, except for Amortization of long-term assets described in the "Fixed Charges" section on page 22 of the MD&A, is presented in Note 1c) on page 34.

Year ended August 31,	2004	
(in thousands of dollars, except per share data and percentages)	Before adoption $	After adoption $
Revenue	519,753	526,480
Operating Income	211,224	203,246
Operating Margin	40.6%	38.6%
Amortization	136,072	140,214
Income taxes	43,831	37,269
Net loss	(26,636)	(32,194)
Basic and diluted net loss per share	(0.67)	(0.81)
Capital expenditures and increase in deferred charges	106,893	101,244
Free Cash Flow	45,863	43,534

As at August 31,	2004	
(in thousands of dollars)	Before adoption $	After adoption $
Fixed assets	739,547	687,960
Deferred charges	34,273	48,293
Deferred and prepaid income	16,070	32,437
Future income tax liabilities	214,296	195,523
Retained earnings	69,041	33,880

Fiscal 2005

Asset Retirement Obligations

In March 2003, the CICA issued Handbook section 3110, *Asset Retirement Obligations*, which provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated costs. Some of Cogeco Cable's lease agreements contain provisions requiring the Corporation to dismantle facilities or remove equipment in the event that the lease agreement is not renewed. However, the Corporation expects to renew most of its lease agreements related to the continued operation of the cable business, and, consequently, any liability related to dismantling, if any, are considered not significant to the consolidated financial statements.

Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities*, which defines Variable Interest Entities (VIE) as entities that have insufficient equity or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The standard provides guidance for determining when an entity is a VIE and which entity, if anyone, should consolidate the VIE. During fiscal 2005, the Corporation adopted this new accounting guideline and concluded that it has no significant impact on these consolidated financial statements.

Future Accounting Pronouncements

Financial Instruments, Hedges and Comprehensive Income

In January 2005, the CICA issued Handbook section 3855, *Financial Instruments – Recognition and Measurement*, Handbook section 3865, *Hedges* and Handbook section 1530, *Comprehensive Income*.

Section 3855 establishes standards for recognition and measurement of financial assets, financial liabilities and non-financial derivatives. The standard specifies when and to which amount a financial instrument is to be recorded on the balance sheet. Financial instruments are to be recorded at fair value in some cases, and at cost in others. The section also provides guidance for disclosure of gains and losses on financial instruments.

Section 3865 includes and replaces the guidance on hedging relationships that was previously contained in AcG-13, mostly those relating to the designation of hedging relationships and its documentation. The new standard modifies the guidance included in Section 1650, *Foreign Currency Translation*, specifying how to apply hedge accounting and which information has to be disclosed by the entity.

Section 1530 establishes standards for reporting and display of comprehensive income. Comprehensive income includes net income as well as all changes in equity during a period, from transactions and events from non-owner sources. Comprehensive income and its components should be presented in a financial statement with the same prominence as other financial statements.

These sections are to be applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Corporation is currently evaluating the impact of these new standards.

Controls and Procedures

The application of Bill 198 and its regulations represents an exercise in continuous improvement which is leading the Corporation to formalize the processes and control measures that are already in place and to introduce new ones. Cogeco Cable has chosen to make this a strategic endeavour which will result in operational improvements and better management.

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer together with management, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as of August 31, 2005, have concluded that the Corporation's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Corporation and its subsidiaries are disclosed adequately. To that end, Cogeco Cable has instituted stricter policies and directives on information disclosure for both internal and external communications. A disclosure committee has been set up with the mandate of ensuring the reliability of corporate information that is disclosed to investors and to the public. The Corporation has already undertaken a process to review and improve its internal controls, enabling its officers to certify Cogeco Cable's compliance with Regulation 52-111.

Uncertainties and Main Risk Factors

This section outlines general as well as more specific risks to Cogeco Cable and its subsidiaries that could significantly affect the financial condition, operating results or business of the Corporation. It is not intended to cover all possible contingencies, nor is there any assurance that the risks outlined in this section will actually unfold as expected or have the anticipated consequences.

The Corporation has adopted a continuous risk management process which includes a quarterly assessment of risks and uncertainties under the oversight of the Audit Committee. As part of this process, the Corporation endeavours to identify any risks and uncertainties that are liable to have a major impact on the Corporation's financial situation, revenue or activities, and to mitigate them proactively when appropriate. This section presents the current results of this process and our risk assessment; it is not intended to describe all possible factors that might have some influence on the Corporation or its activities at any point in time, and the risks and uncertainties described herein may well materialize or evolve in a different way.

Risks Pertaining to Markets and to Competition

The broadband telecommunications environment in Ontario and Québec is highly competitive, with the exception of local telephone service which has been opened up to competition but is still dominated to a very large extent by the incumbent telephone companies. The broadband telecommunications market is characterized by the existence of numerous competing land-based and satellite services operated by well-established telecommunications providers that have substantial resources with which to support their activities. In addition, it is becoming increasingly common in the market to see bundled service offers designed to meet all of a household's communications, information and entertainment needs at a package rate for the entire bundle.

In Canada, competition between cable television networks within a given serving area has been permitted for over ten years, but the installation of competing broadband wireline networks to people's homes is still largely limited to the established cable and telephone companies. However, competition in the provision of broadband telecommunications services, bundled or otherwise, occurs not only between competitors who are equipped with their own telecommunications facilities but also with competitors who possess few or no facilities and who use the existing facilities of companies that do have them, subject to access conditions dictated by applicable regulations.

As far as competition between land-based and satellite systems is concerned, the Corporation faces strong competition in its serving areas from two national satellite distribution undertakings, Star Choice and Bell ExpressVu (the latter is owned by BCE Inc., the largest integrated telecommunications company in Canada). Another BCE company, Telesat, has just successfully launched the Anik F1 direct-to-home satellite, whose capacity will be used primarily to increase the number of channels for Canadian direct-to-home satellite distribution services. The Corporation also faces illicit competition from the unauthorized reception of direct-to-home satellite signals. Although signal theft has become more difficult as a result of actions taken by the main companies concerned, the applicable laws and the penalties that are actually imposed for signal theft are still inadequate.

Combined offers of services delivered to the home and mobile services are becoming increasingly common across the entire broadband telecommunications market. Some mobile telephone services already carry audio and video content in addition to Internet, e-mail and telephone communications. Adding mobility to the services provided by the Corporation constitutes an important challenge in the medium term. The Corporation is also evaluating a number of solutions that might enable it to combine fixed and mobile telecommunications in one service offering, but it has yet to make a decision on the matter.

The Corporation has learned to deal with this multi-faceted competition by taking advantage of growth in demand for digital video services, HSI access and digital telephony with attractive offers that bundle these advanced services together. Management believes that the demand for these new services will continue to provide the Corporation with worthwhile growth opportunities over the medium term, until the maturity point is reached.

So far, the size of the investments required to acquire customers for these services is leading the competitors who provide them to seek reasonable margins on retail prices. Although retail prices have remained relatively firm over the past fiscal year, it is still possible that the Corporation may find itself facing attacks in the form of retail price cuts on the part of some competitors, which would put downward pressure on margins for the services targeted by those competitors. Therefore, the Corporation continually strives to improve its cost structure in order to preserve sufficient leeway to deal with such an event.

Although they are less cyclical in nature than the products and services of many other spheres of economic activity, the Corporation's services nevertheless do feel some effect from economic cycles. During economic downturns, the lower number of housing starts in the serving areas adds to the challenge of maintaining numbers of basic customers in a highly competitive market. A significant increase or cutback in household spending can also have an impact on the number of revenue-generating units sold, particularly the more expensive discretionary television services. Internet access and telephone services will probably be less sensitive to economic cycles.

Risks Pertaining to Technology

The evolution of technologies for the distribution of all types of telecommunications services is continuing at an accelerated pace, impelled by the forces of competition and the enormous size of the global broadband telecommunications market moving towards convergence. To avoid being caught short by technological changes, the Corporation closely monitors developments in technologies used for the transmission, distribution, reception and storage of data for these services as well as their deployment by various competing telecommunications companies, not only in its domestic market but also more generally, across North America and around the world. Technology watch and the response to challenges presented by technological change are carried out both within the company and by various trade associations to which it belongs, in particular CableLabs.

Much effort has been made over the years to improve the performance of competitive distribution technologies via digital subscriber lines (DSL) over the telephone companies' conventional wireline networks. In fact, many incumbent telephone companies have already launched broadband video distribution services that use these technologies to compete with cable-based telecommunications services, in particular in the Corporation's serving areas in Ontario and Québec. Data distribution over power lines has also improved. However, progress is occurring even faster in the distribution of a wide range of services, including audiovisual services, over wireless networks.

On the other hand, cable telecommunications also continue to benefit from major technological progress, particularly in the areas of modulation, digital compression, fractioning of optoelectronic links, multiplexing, HD distribution and switched video distribution. These developments lead us to believe that wired distribution over fiber and coaxial cable will be an efficient, reliable, economical and competitive distribution method for existing and future broadband telecommunications services, for the foreseeable future. However, this prospect depends on the Corporation's ability to make additional investments in a timely fashion in order to deploy the necessary technical improvements in its networks.

Growth in the penetration of HSI access of all types and the emergence of new, more sophisticated algorithms for audiovisual content, such as MPEG-4, will promote the increased distribution and consumption of movies and television programs on demand through an Internet connection. This trend opens up the possibility that the market for existing analog and digital audiovisual programming distribution services may become fragmented, especially for movies, special events and specialized or repertory programs. In the event of a significant migration of the audiovisual content offering to an IP platform, it may happen that the revenue and margins derived from HSI access services will not entirely outweigh the loss of revenue or reduction of margins derived from analog and digital video services.

Risks Pertaining to Regulation

Each of the Corporation's activities is subject to a more or less extensive regulatory framework, depending on the type of service involved. The risks result from the very nature of the rules that are in force, from their application, from their asymmetry depending on the distribution technology used or from their future development, as the case may be. Canadian legislation governing broadcasting, radiocommunications, telecommunications, copyright and the protection of personal information are the main sources of relevant regulations. New federal regulatory policies currently under consideration in the areas of telecommunications, copyright, lawful access to customers' personal information and control over spam may all have a substantial impact on the Corporation's activities and on the operating costs it will have to incur to comply with them.

Provincial consumer protection laws also have a major impact on the way these activities are carried out. During the last fiscal year, the Corporation was obliged to devote resources to review its sales and customer account management processes in order to comply with the increased requirements of regulations under the new Ontario law. Management believes that it has implemented the information and verification measures required by the regulations, but the new law nevertheless makes it easier for consumers to take legal action, either individually or collectively.

The regulations governing the cable distribution of video or audio services, particularly in analog mode but also in digital mode, are still very detailed and restrictive. Indeed, the current framework imposes numerous structural constraints on Canada's major cable companies, particularly regarding the use of the networks' distribution capacity, the choice of services that may be distributed, the distribution mode for each type of programming service, the wholesale price and other conditions of distribution contracts, the composition of basic service, the bundling of programming services, access to the sale of advertising or sponsorship messages, cross-promotion of the cable company's other services and financial contributions to support Canadian programming. The Canadian Cable Telecommunications Association, of which the Corporation is a member, is pursuing its efforts to obtain greater flexibility and to eliminate regulatory asymmetries, for the greater benefit of customers, but no significant changes will occur in the short term.

HSI access services are not regulated. Even though the Internet access market is already extremely dynamic and competitive, the Corporation is nevertheless obliged to provide access to its networks to third-party Internet service providers who request it, according to terms established in an access tariff approved by the Canadian Radio-television and Telecommunications Commission (CRTC). This means that the Corporation must accommodate several competitors on its networks in Ontario and Québec.

As far as telephone services are concerned, the Corporation decided to launch a new digital telephony service in the last fiscal year. The CRTC has ruled that there are grounds for applying the same regulatory framework to the incumbent telephone companies' VoIP services until competition develops in the market. This ruling is being challenged on two fronts: in the federal cabinet and in the Federal Court of Appeal. Incidentally, the CRTC has initiated a proceeding to consider whether it should forbear from regulating telephone services that are still subject to regulatory control. The CRTC's decision on the criteria, conditions and timetable for forbearance on these services will not become known until later in the 2006 fiscal year.

Risks Pertaining to Operating Costs

The Corporation is continuing its efforts to mitigate the impact of costs of goods sold on Operating Margin growth. It is obliged to deal with increases in input costs which cannot always be entirely anticipated or controlled, either because of regulatory decisions or because of the power of certain suppliers of products or services. On this point, the outcome of negotiations concerning the wholesale fees payable to the main specialty or pay television channels whose contracts have expired or are due to expire, or for the fees payable to the major studios for movies for VOD service, is often fraught with uncertainty.

A new long-term agreement with Hydro One for the use of support structures should be reached shortly. Cogeco Cable is also currently negotiating with Hydro-Québec, its primary supplier of support structures in Québec.

Risks Pertaining to Information Systems

More than ever, automated information systems constitute a vital component for the Corporation. The risks associated with information systems and with the application of information technologies are the subject of special attention as part of the evaluation of the Corporation's risks and the certification of internal controls over financial information.

The Corporation still uses different customer account management systems in Ontario and in Québec. The agreement for the use of the existing customer account management system in Ontario will expire in 2008. Therefore, the Corporation must either negotiate a new agreement or find other solutions in the medium term.

Risks Pertaining to Disasters

The Corporation has a disaster recovery plan for dealing with risks of natural disaster, quarantine, power failures, terrorist acts, intrusions, computer hacking or data corruption. However, the emergency plans and procedures that are in place cannot guarantee that the effect of any possible disaster will be mitigated as planned. The Corporation is no longer insured against loss of data, and consequently relies on the data protection and recovery systems that it has put in place with third-party service providers.

PERFORMANCE HIGHLIGHTS

Customer Statistics

		Net additions (losses)			% of Penetration[1]	
		2005		2004	August 31,	
August 31, 2005		Actual	Initial Guidance [2]	Actual	2005	2004
Revenue-generating units[3]	**1,355,818**	**83,919**	61,500 – 72,500	90,100	**NA**	NA
Basic service customers	**821,433**	**(2,422)**	0 – 2,500	3,198	**NA**	NA
HSI service customers[4]	**277,648**	**38,040**	32,000 – 37,000	40,999	**37.7**	33.4
Digital service customers	**255,289**	**46,853**	29,500 – 33,000	45,903	**31.7**	25.8
Digital telephony service customers	**1,448**	**1,448**	NA	NA	**NA**	NA
Digital terminals[5]	**303,884**	**63,813**	40,000 – 45,000	56,984	**37.7**	29.8

(1) As a percentage of basic service in areas served.
(2) According to the fiscal 2004 annual report.
(3) Including basic, digital, HSI and digital telephony service customers.
(4) The number of Internet service customers in fiscal 2004 has been restated to reflect the number of customers based on the billing dates, which are spread throughout the month, instead of the number of customers as at the end of the fiscal year. This change produces a downward adjustment of approximately 5,400 customers. As a result, additions for fiscal 2004 have slightly changed. Customers subscribing only to Internet services amounted to 55,057 as at August 31, 2005 compared to 49,691 as at August 31, 2004.
(5) 69% of terminals were purchased by customers compared to 82% a year earlier.

RGU growth was greater than anticipated thanks to higher demand than expected for digital services and HSI and to the June 2005 launch of digital telephony.

The 22% increase in the number of digital service customers is the result of a broader range of services offered, for example, the addition of new digital and HD channels, the improvement to the VOD offer, the launch of a free SVOD offer to pay television customers, the success of the attractive digital terminal rental program and the growing consumer interest for this technology. The increase in the number of HSI service customers was higher than initial projections, partly due to the addition of the F-Secure Internet security products (offered free to Regular and Pro service customers) and to the launch of HSI Lite on an acquisition basis in Québec. The number of basic service customers dipped slightly due to stronger competition.

During the fourth quarter of the 2005 fiscal year, Cogeco Cable launched its digital telephony service to its HSI customers in Burlington, Oakville and Windsor in Ontario and Trois-Rivières, Drummondville and St-Hyacinthe in Québec. In addition, during the first quarter of fiscal 2006, the service offer was extended to all residents of these areas and to those of the Kingston area, in Ontario, whether or not they were Cogeco Cable customers. By the end of fiscal 2005, the number of customers subscribing to this new service had reached 1,448 and pending installations were 1,029, exceeding management's expectations. The service will be extended to most of Cogeco Cable's major markets by the end of the 2006 fiscal year.

Financial Results and Cash Flow

Cogeco Cable achieved 5.3% revenue growth, slightly over its initial 4% to 5% target. This revenue growth is primarily the result of an increase in basic service rates and higher penetration rates of HSI and digital services. Operating Income rose by 11.9%, exceeding the initial objective of 8% to 9%. This result is attributable to higher revenue per basic service customer, cost controls and process improvement measures.

Financial expense went down by 3.9%, slightly lower than expected, as average Indebtedness was lower than anticipated. Amortization declined by 0.9% as expected, excluding the effect of a change in the useful lives of certain long-term assets during fiscal 2004, described in the "Fixed Charges" section on page 22. Cogeco Cable reports net income higher than initial forecasts, standing at $28.7 million, mainly due to Operating Income that was higher than expected and to a financial expense that was slightly lower than forecast.

Capital expenditures, including assets acquired under capital leases, and the increase in deferred charges amounted to $125.7 million, $11.7 million more than initially expected. The decrease in deferred charges is close to what was expected and is mainly attributable to lower equipment subsidies, given that most new digital service customers chose to rent their terminals. The increase in capital expenditures (including assets acquired under capital leases), which is higher than expected, is primarily due to an increase in purchases of digital terminals and also to increased upgrade and reconstruction activities. Free Cash Flow of $45.3 million was generated, reaching the lower end of the anticipated range. Cash flow from operations was about $9 million greater than anticipated and is attributable to higher-than-expected Operating Income and to financial expenses that were slightly lower than forecast.

OPERATING AND FINANCIAL RESULTS

Operating Results

Years ended August 31, (in thousands of dollars, except percentages)	2005 $	2004 $	Change %
Revenue	**554,404**	526,480	5.3
Operating costs	**318,704**	315,208	1.1
Management fees – COGECO Inc.	**8,179**	8,026	1.9
Operating Income	**227,521**	203,246	11.9
Operating Margin	**41.0%**	38.6%	

Revenue

Revenue rose by $27.9 million, or 5.3%, mainly due to increased penetration of HSI and digital services and to various rate increases, as discussed below:

- HSI service customer additions during fiscal 2004 and 2005 generated incremental revenue of approximately $17.6 million over fiscal 2004. The addition of about 38,000 new HSI service customers during fiscal 2005 contributed approximately $8.2 million to this growth and the addition of about 40,000 HSI service customers during the corresponding period in 2004 accounted for about $9.4 million.
- Various rate increases during fiscal 2004 and 2005 created incremental revenue of about $4.2 million as a result of:
  - Effective June 15, 2004 in Ontario and August 1, 2004 in Québec respectively, an average monthly rate increase of approximately $0.74 per basic analog service customer was established. An increase of $4 in the monthly digital basic rate was also implemented in Québec. In addition, the monthly rate for the pay television package has been raised by $3, and other limited selective tier service rate increases have been implemented in Ontario, effective June 15, 2004.
  - Monthly rate increases of at most $3 per customer and averaging $0.50 per basic service customer took effect on June 15, 2005 in Ontario and on August 1, 2005 in Québec. As a result of these increases, the basic monthly rate is now $24.99 in the large majority of the Ontario networks, and the number of different basic rates has dropped from 22 to 7, ranging essentially between $20 and $27.50 per month, in Québec. The monthly rate for certain bundle services has increased by $1 in Ontario, and other limited rate increases for selective tier services have been implemented in Québec.

In addition, new digital services, VOD and equipment rentals contributed about $7.7 million to revenue growth.

The organic growth, detailed above, was offset by a $4.4 million drop in equipment sales revenue.

The improved penetration of HSI and digital services and the rate hikes helped push average monthly service revenue per basic service customer up from $52.27 in fiscal 2004 to $55.43 in fiscal 2005, an increase of 6%.

Operating Costs and Management Fees

Operating costs increased by $3.5 million, or 1.1%. The main cost variances are discussed below:

- Equipment cost of sales declined by $5.3 million as more customers decided to rent their digital terminals instead of purchasing them. Furthermore, IP transport costs for HSI services and affiliation costs for television services declined despite an RGU growth of 6.6%. As a result, cost of sales as percentage of revenue has declined.

- The rise in other operating costs is largely attributable to the 6.6% rise in RGU that led to greater customer care expenses and to an increase in administration expense related to the review and improvement of internal controls to fulfill the requirements of regulations 52-109 and 52-111. Furthermore, as Cogeco Cable significantly surpassed its Operating Income growth objectives for fiscal 2005, the provision for employee bonuses increased. Other operating costs as a percentage of service revenue remained relatively stable.

Management fees paid to COGECO Inc. are discussed in detail in the "Related Party Transactions" section on page 15.

Operating Income

Operating Income improved by $24.3 million or 11.9% as a result of revenue growth, offset by a modest increase in operating costs. Cogeco Cable's Operating Margin continues to improve, rising from 38.6% in fiscal 2004 to 41% in fiscal 2005.

Fixed Charges

Years ended August 31, (in thousands of dollars, except percentages)	**2005** $	2004 $	Change %
Amortization	**125,088**	140,214	(10.8)
Financial expense	**55,692**	57,957	(3.9)

Amortization amounted to $125.1 million during fiscal 2005 compared to $126.2 million for the same period last year, excluding the financial impact of a $14 million adjustment for a change in the useful lives of certain long-term assets as described below. Amortization declined as many cable modems and digital terminals were fully amortized.

Effective September 1, 2003, the estimated useful life of home terminal devices rented by the Corporation's customers was revised downward since unit costs, converted into Canadian dollars, declined significantly during 2003. Considering the lower unit costs, it is now often more economical to replace rather than repair defective devices. Therefore, the estimated useful life of cable modems was revised from seven years to three years and since the digital terminal unit cost has declined more gradually, their estimated useful life was revised from seven years to five years.

Financial expense declined by $2.3 million as the level of Indebtedness was lower due to Free Cash Flow generated. The average interest rate was 7.5% in fiscal 2005 compared to 7.2% in fiscal 2004.

Income Taxes

For fiscal 2005, income taxes amounted to $18 million compared to $37.3 million for fiscal 2004, or $9.6 million excluding the financial impact of non-cash adjustments described below. The income tax increase, on a normalized basis, was mainly attributable to the Operating Income growth.

In November 2003, the Ontario government announced that corporate income tax rates would not decline in the future but would instead rise to 14% effective January 1, 2004. Prior to this announcement, the tax rate was expected to decline from 11% in 2004 to 8% in 2007. As a result, a $32.5 million non-cash adjustment was recorded for future income tax liabilities in the first quarter of fiscal 2004. This amount was partly offset by a non-cash reduction of future income tax liabilities of $4.9 million during this same quarter. This reduction is related to the decline in the carrying value of home terminal devices and certain other long-term assets.

Current income taxes of $2.8 million in fiscal 2005 mainly relate to the large corporation tax, which is computed on the basis of the Corporation's capital base. Since Cogeco Cable has accumulated non-capital income tax losses of about $86.6 million as at August 31, 2005, most of the income taxes arising from earnings are deferred.

Net Income (Loss)

In fiscal 2005, net income amounted to $28.7 million, or $0.72 per share, compared to a net loss of $32.2 million, or $0.81 per share, in fiscal 2004. If non-cash adjustments for amortization and income tax (which amounted to $41.6 million in 2004) are excluded, the net income for 2004 would have been $9.4 million or $0.24 per share.

During fiscal 2005 and 2004, 140,766 and 164,980 stock options were granted, respectively. The Corporation recorded compensation expense for options granted on or after September 1, 2003. As discussed in Note 9 on page 44, if compensation cost had been recognized using the fair-value-based method at the grant date for options granted between September 1, 2001 and August 31, 2003, Cogeco Cable's net income for fiscal 2005 would have been reduced by $384,000 and the net loss for fiscal 2004 would have been increased by $384,000.

CASH FLOW ANALYSIS

Years ended August 31, (in thousands of dollars)	2005 $	2004 $
Operating activities		
Cash flow from operations	**170,938**	144,778
Net changes in non-cash operating items	**23,657**	4,302
	194,595	149,080
Investing activities[1]	**(123,703)**	(98,602)
Financing activities	**(70,831)**	(50,478)
Net change in cash and cash equivalents and cash and cash equivalents at end	**61**	—

[1] Excludes assets acquired under capital leases.

Operating Activities

Cash flow from operations was greater than last year by $26.2 million or 18.1%, mainly due to the growth in Operating Income and to a decline in the financial expense.

The impact of changes in non-cash operating items amounted to a cash inflow of $23.7 million in fiscal 2005, compared to a cash inflow of $4.3 million in fiscal 2004. The increased cash inflow from non-cash operating items is mainly related to an increase in accounts payable and accrued liabilities of $15.7 million as a result of the capital expenditure program completed late in fiscal 2005 compared to a decline of $0.2 million in fiscal 2004. On a per share basis, cash flow from operations increased from $3.63 in fiscal 2004 to $4.28 in fiscal 2005, mainly as a result of improved Operating Income and to a decline in the financial expense.

Investing Activities

Investing activities related to capital expenditures and deferred charges increased from $101.2 million in fiscal 2004 to $125.7 million in fiscal 2005. Of these amounts, assets acquired under capital leases amounted to $1.9 million in fiscal 2005 and $2.6 million in fiscal 2004.

Capital Expenditures

Capital expenditures, segmented according to the National Cable Television Association (NCTA) standard reporting categories, are as follows:

Years ended August 31, (in thousands of dollars)	2006 Guidelines[1] $	2005 $	2004 $
Customer premise equipment[2]	34,200	**44,526**	27,988
Scalable infrastructure[3]	23,000	**19,363**	16,415
Line extensions	11,500	**10,416**	10,157
Upgrade/rebuild	40,100	**34,096**	20,893
Support capital	10,500	**3,888**	5,769
Total capital expenditures[4]	119,300	**112,289**	81,222

[1] See "Fiscal 2006 Financial Guidelines" section for further discussion on page 28.
[2] Includes mainly new and replacement drops but also digital terminals, cable modems and multimedia terminal adapters for telephony.
[3] Includes headend equipment and expenditures related to telephony transport.
[4] Includes capital leases that are excluded in the statements of cash flow.

In fiscal 2005, the variances related to capital expenditures are mainly attributable to the following factors:

- Expenditures associated with the network upgrade and rebuild program rose by $13.2 million due to the acceleration of the program to expand the bandwidth to 750 MHz and 550 MHz for the Ontario and Québec networks, respectively, and to improvements in network reliability. An increase in the number of households with access to two-way service was also a factor. The percentage of customers with access to two-way service rose from 87% as of August 31, 2004 to 89% as of August 31, 2005.
- The increase in customer premise equipment mainly results from a rise in expenditures related to digital terminals and to telephony equipment. The number of digital terminals rented to customers increased as a result of an attractive rental plan launched during the fourth quarter of fiscal 2004 and a greater number of terminals purchased at year-end.

The increase in capital expenditures during fiscal 2006 will stem mainly from a $11.5 million increase in expenditures related to digital telephony (compared to $4.8 million in fiscal 2005) and from a $4.5 million increase (excluding telephony expenditures) in support capital mainly for improvements in information systems. These increases should be partially offset by a $10.4 million decline in expenditures as a result of a greater number of digital terminals purchased at the end of fiscal year 2005.

In the coming years, capital expenditures and subsidies related to cable modems and digital terminals are expected to decrease as unit prices continue to decline and as such devices are increasingly integrated in Consumer Electronics products such as PCs, television sets and DVDs.

On the network side, numerous technology advancements will also help reduce capital expenditures in general. Improvements in compression and multiplexing techniques will continue to occur, as they did significantly in the past few years, and will allow for more and more video signals to be transmitted within a given bandwidth without signal degradation. A good part of the increased bandwidth needs, generated by growth in narrowcast digital services such as Internet and VOD, will be accommodated through further cost efficient node splitting. Future migration to more advanced DOCSIS standards will allow for the use of more robust modulation techniques in the return path as well as substantially higher transmission speeds. Most importantly, the gradual migration of cable systems to all-digital networks will allow operators to recuperate the bandwidth currently used for analog distribution and use it for digital signals distribution, including HD television signals. This migration to all-digital systems will take some time to complete and capacity upgrades will require 3 to 4 years. As a result, capacity upgrades will consume relatively less capital than it has been the case in the past.

Increase in Deferred Charges

Increase in deferred charges declined to $13.4 million in fiscal 2005 compared to $20 million in fiscal 2004. The breakdown of the increase in deferred charges is presented in the table below.

Years ended August 31, (in thousands of dollars)	2006 Guidelines[1] $	**2005** **$**	2004 $
Equipment subsidies	—	**1,293**	9,532
Reconnection costs	15,666	**11,468**	10,490
New service launch costs and others	4,924	**621**	—
	20,590	**13,382**	20,022

(1) See the "Fiscal 2006 Financial Guidelines" section on page 28 for further discussion.

Equipment subsidies mainly relate to subsidies on sales of 12,810 and 56,798 digital terminals in fiscal 2005 and 2004, respectively. During fiscal 2005, a significant reduction in the increase in deferred charges was recorded, in light of the digital terminal rental program offered to customers since the fourth quarter of fiscal 2004. New services launch costs consist mainly of marketing costs associated with the launch of digital telephony in new markets. During fiscal 2006, the increase in deferred charges should climb due to an increase in reconnection costs and other deferred charges partly related to digital telephony.

Free Cash Flow and Financing Activities

Free Cash Flow of $45.3 million was generated during fiscal 2005, an increase of $1.7 million over fiscal 2004 as a result of rising cash flow from operations partly offset by an increase in capital expenditures and deferred charges.

In fiscal 2005, Indebtedness declined by $67.6 million essentially due to Free Cash Flow of $45.3 million and an increase in non-cash operating items of $23.7 million. In fiscal 2004, Indebtedness declined by $50.9 million essentially due to Free Cash Flow amounting to $43.5 million and to an increase in non-cash operating items of $4.3 million.

Cogeco Cable declared a quarterly dividend during the first quarter of fiscal 2005 for the first time since fiscal 2001 as a result of a significant improvement in its financial results leading to strong Free Cash Flow. A quarterly dividend of $0.02 per share was declared for the first three quarters of fiscal 2005 for subordinate and multiple voting shares and a dividend of $0.04 per share was declared for the fourth quarter due to a substantial improvement in the Corporation's overall results.

FINANCIAL POSITION

Since August 31, 2004, the "Indebtedness" and "Shareholder's equity" items of the balance sheet have undergone significant changes. Indebtedness was reduced by $65.7 million, mainly due to Free Cash Flow of $45.3 million and to an increase of $23.7 million in non-cash operating items. Shareholder's equity increased by $26 million mainly attributable to net income of $28.7 million partly offset by dividends totalling $4 million. At August 31, 2005, the Corporation performed an impairment test of the value of the customer base and concluded that no impairment existed.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

The table below summarizes debt-related financial ratios over the last two fiscal years and the fiscal 2006 guidelines.

Years ended August 31,	2006 Guidelines[1]	**2005**	2004
Average cost of Indebtedness	7.7%	**7.5%**	7.2%
Fixed rate Indebtedness	100%	**100%**	92%
Average term: long-term debt	2.3 years	**3.3 years**	4.3 years
Net Indebtedness[2] /Shareholders' equity	0.9	**1.0**	1.1
Net Indebtedness[2]/ Operating Income	2.8	**3.0**	3.7
Operating Income/ Financial expense	4.2	**4.1**	3.5

(1) See the "Fiscal 2006 Financial Guidelines" section on page 28 for further discussion.
(2) Indebtedness net of cash and cash equivalents.

The average cost of Indebtedness has increased due to the higher fixed-rate portion of Indebtedness, whose average interest rate is higher than that of the variable-rate Term Facility. The average tenure of long-term debt will decline by one year as no new debenture and note refinancings are planned for fiscal 2006.

Financial leverage and interest coverage ratios should continue to improve in fiscal 2006 as management expects Operating Income growth and a reduction in Indebtedness net of cash and cash equivalents. See "Fiscal 2006 Financial Guidelines" on page 28 for further details.

Outstanding Share Data

A description of Cogeco Cable's share data as at September 30, 2005 is presented in the table below. Additional details are provided in Note 9 on page 44.

	Number of shares/ options	Amount (in thousands of dollars)
Common Shares		
Multiple voting shares	15,691,100	98,346
Subordinate voting shares	24,293,486	531,874
Options to Purchase Subordinate Voting Shares		
Outstanding options	590,723	
Exercisable options	326,851	

Financing

The Corporation benefits from a $270 million Term Facility and a $25 million operating line of credit with a group of financial institutions. These bank facilities are not guaranteed by the parent company, COGECO Inc. As of August 31, 2005, the Corporation had repaid its Credit Facility from the Free Cash Flow generated over the course of the fiscal year. Cogeco Cable could have used all the committed amount under its Term Facility without breaching any of its covenants under its financing agreements.

Cogeco Cable continues to satisfy the various conditions stipulated in its financing agreements whilst being on schedule to meet interest and principal repayment obligations. Of all Cogeco Cable's debt instruments, the bank facilities usually set the most restrictive limitations on the Corporation's activities and operations. The most important restrictions cover maintaining certain financial ratios, authorised investments, disposal of assets, reimbursement of long-term debt and distributions to shareholders.

During the next five years, Cogeco Cable's required principal repayments on its long-term debt, excluding those under capital leases, amount to $513.7 million. The $125 million Second Secured Debentures will have to be repaid in fiscal 2007. The $150 million Senior Secured Debentures and the US$150 million Senior Secured Notes will have to be repaid in fiscal 2009 for a total amount of CDN$388.7 million (the Senior Secured Notes are converted into CDN$ using the exchange rate on the cross-currency swap agreements).

In fiscal 2005, Dominion Bond Rating Service (DBRS) raised its outlook, while Standard & Poor's Ratings Services (S&P) confirmed its stable outlook on Cogeco Cable's ratings. DBRS has raised its outlook to positive on the Senior Secured Debentures and Notes' BB(high) rating and on the Second Secured Debentures' BB rating based on good growth in the number of HSI service customers in a competitive environment and on the use of Free Cash Flow to reduce the debt. S&P rates the Senior Secured Debentures and Notes and the Second Secured Debentures one notch higher than DBRS at BBB- and BB+, respectively. With continued growth in Free Cash Flow, Cogeco Cable is well positioned to reduce its financial leverage, which should at least maintain its debt ratings. Based on anticipated Free Cash Flow for fiscal 2006, refinancings are not expected before fiscal 2007.

Foreign Exchange Management

The Corporation has established guidelines whereby currency swap agreements and foreign exchange forward contracts can be used to manage risks associated with fluctuations in exchange rates related to its US-dollar denominated long-term debt and its purchases of programming content and home terminal equipment denominated in US dollars. All such agreements and contracts are exclusively used for hedging purposes. In order to minimize the risk of counter-party default, Cogeco Cable completes transactions with financial institutions that carry a credit rating equal or superior to A+.

Cogeco Cable has entered into cross-currency swap agreements to fix the liability for interest and principal payments on its US$150 million Senior Secured Notes. These agreements have the effect of converting the US interest coupon rate of 6.83% per annum to an average Canadian dollar fixed interest rate of 7.254% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at CDN$1.5910. Amounts due under the US$150 million Senior Secured Notes Series A declined by CDN$18.9 million in fiscal 2005 due to the strengthening of the Canadian dollar. Since the Senior Secured Notes Series A are fully hedged, the decline is fully offset by an increase in deferred credit described in Note 8e) on page 44. This $60.6 million deferred credit represents the difference between the year-end exchange rate and the exchange rate on the cross-currency swap agreements, which determines the liability for interest and principal payments on the Senior Secured Notes Series A.

In June 2003, Cogeco Cable entered into foreign exchange forward contracts to hedge a portion of anticipated purchases in US dollars for fiscal 2003 and 2004. At August 31, 2004 and 2005, no forward contracts were outstanding.

Commitments and Guarantees

In the normal course of business, Cogeco Cable enters into agreements containing features that meet the criteria for a guarantee. In connection with the sale of businesses or assets, the Corporation has agreed to indemnify the purchaser against claims related to events, which occurred prior to the sale. Under the terms of the Senior Secured Notes and the Second Secured Debentures, Cogeco Cable has agreed to indemnify the other parties against changes in regulation relative to withholding taxes. The nature of the indemnification agreements prevents the Corporation from estimating the maximum potential liability it could be required to pay. As at August 31, 2005, no liability has been recorded associated with these indemnifications. Supplementary information on guarantees is presented in Note 14 on page 52.

Cogeco Cable's contractual obligations as at August 31, 2005 are shown in the table below:

Years ended August 31, (in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $	Thereafter $	Total $
Long-term debt[1]	0	125,000	0	388,650	0	175,000	688,650
Capital lease obligations[2]	1,547	1,351	975	381	5	0	4,259
Operating leases and others	15,876	13,336	13,161	11,665	10,754	10,836	75,628
Other long-term obligations[3]							223,156
Total contractual obligations[4]	17,423	139,687	14,136	400,696	10,759	185,836	991,693

(1) Includes principal repayments and the impact of cross-currency swap agreements but excludes capital leases.
(2) Includes principal repayments and financial expense.
(3) Other long-term liabilities reflected on Cogeco Cable's balance sheet include deferred and prepaid income, pension plan liabilities and accrued employee benefits and future income tax liabilities. The nature of those obligations prevents the Corporation from estimating an annual breakdown.
(4) Annual breakdown excludes other long-term obligations.

THREE-YEAR ANNUAL AND QUARTERLY FINANCIAL HIGHLIGHTS

Three-Year Financial Highlights

The 2003 financial highlights have been restated to reflect the impact of the adoption of new accounting standards implemented in 2004 regarding the timing of revenue recognition and certain related costs and the classification of certain items such as revenue, expense or capitalized costs. See the "Adoption of New Accounting Standards – Revenue Recognition" section on page 16 for a detailed description of these new accounting standards.

Years ended August 31, (in thousands of dollars, except per share data)	2005 $	2004 $	2003 (restated) $
Revenue	**554,404**	526,480	489,194
Operating Income	**227,521**	203,246	175,609
Net income (loss)	**28,721**	(32,194)	(124)
Per share data			
Net income (loss) per share			
Basic and diluted	**0.72**	(0.81)	0.00
Dividend[1]	**0.10**	0.00	0.00
Free Cash Flow	**45,267**	43,534	2,406
Total assets	**1,755,796**	1,761,379	1,802,744
Long-term liabilities	**914,315**	956,956	972,087

[1] Per multiple voting share and per subordinate voting share.

Quarterly Financial Highlights (Unaudited)

Cogeco Cable's operating results are not generally subject to material seasonal fluctuations. However, the loss in basic service customers is usually greater, and the addition of HSI service customers is generally lower in the third quarter, mainly because students leave their campus at the end of the school year. Cogeco Cable offers its services in several university and college towns such as Kingston, Windsor, St.Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski. Furthermore, the fourth quarter's Operating Margin is usually higher as lower management fees are paid to COGECO Inc. Under the Management Agreement, Cogeco Cable pays a fee equal to 2% of its total revenue subject to a maximum amount. Since the maximum amount has been reached early in the fourth quarter of fiscal 2004, and late in the third quarter of fiscal 2005, Cogeco Cable has paid less or no management fees in the fourth quarters.

Cogeco Cable's revenue has consistently grown over the last eight quarters mainly as a result of improved HSI and digital services penetration and rate increases. Furthermore, Cogeco Cable's focus on improving its Operating Margin has resulted in the margin and cash flow from operations increasing every quarter, except for the first quarters of fiscal 2004 and 2005 because management fees paid to COGECO Inc. are higher in the first quarter. It is this consistent financial performance quarter over quarter that has led to strong shareholder value creation. The large net loss in the first quarter of fiscal 2004 was attributable to non-cash adjustments for amortization and income taxes totaling $41.6 million. Those non-cash adjustments are discussed in "Fixed Charges" and "Income Taxes" on page 22.

	2005				2004			
Quarters ended[1] (in thousands of dollars, except percentages and per share data)	Nov. 30 $	Feb. 28 $	May 31 $	Aug. 31 $	Nov. 30 (restated) $	Feb. 29 (restated) $	May 31 $	Aug. 31 $
Revenue	**135,766**	**138,389**	**140,071**	**140,178**	129,489	131,574	132,364	133,053
Operating costs	**79,857**	**80,328**	**79,054**	**79,458**	79,713	78,576	78,419	78,500
Management fees – COGECO Inc.	**2,715**	**2,764**	**2,707**	**–**	2,562	2,585	2,616	263
Operating Income	**53,194**	**55,297**	**58,310**	**60,720**	47,214	50,413	51,329	54,290
Operating Margin	**39.2%**	**40.0%**	**41.6%**	**43.3%**	36.5%	38.3%	38.8%	40.8%
Income (loss) before income taxes	**7,056**	**9,469**	**12,960**	**17,256**	(11,004)	3,291	4,845	7,943
Net income (loss)	**3,827**	**5,613**	**8,245**	**11,036**	(41,103)	588	1,852	6,469
Cash flow from operations	**39,192**	**41,675**	**43,562**	**46,509**	31,882	35,278	36,593	41,025
Net income (loss) per share[2]	**0.10**	**0.14**	**0.21**	**0.28**	(1.03)	0.01	0.05	0.16

[1] The addition of quarterly information may not correspond to the annual total given rounding.
[2] Basic and diluted.

2005 vs 2004 Fourth Quarter Operating Results

Revenue rose by $7.1 million, or 5.4%, mainly attributable to improved HSI services penetration and rate increases implemented. See the "Revenue" section on page 21 for further discussion on rate increases.

Operating costs increased by a modest $1 million, or 1.2%. As Cogeco Cable significantly surpassed its Operating Income growth objectives for fiscal 2005, the provision for employee bonuses increased in the fourth quarter. Furthermore, the rise in customer care expenses is largely attributable to the 6.6% year-over-year rise in RGUs. On the other hand, costs of sales, including equipment sold, network fees and IP transport costs for HSI services, have declined.

Operating Income improved by $6.4 million or 11.8% as a result of revenue growth partly offset by a modest increase in operating costs. Cogeco Cable's focus on improving its Operating Margin has resulted in the margin going up from 40.8% to 43.3%.

Net income amounted to $11 million, or $0.28 per share, compared to $6.5 million, or $0.16 per share, for the same period in fiscal 2004. This increase was primarily due to the strong growth in Operating Income.

Cash flow from operations increased by $5.5 million or 13.4%, compared to last year, mainly due to the growth in Operating Income. Investing activities related to capital expenditures and deferred charges, including assets acquired under capital leases, rose from $34.7 million to $46.3 million, mainly due to increased upgrade and reconstruction activities and purchases of digital terminals. Free Cash Flow of $0.3 million was generated, a decline of $6.1 million compared to the same period last year as a result of a $5.5 million increase in cash flow from operations, offset by a $11.6 million increase in capital expenditures and deferred charges.

Indebtedness declined by $44.7 million essentially due to an increase in non-cash operating items of $46.1 million.

FISCAL 2006 FINANCIAL GUIDELINES

Cogeco Cable will strive to expand its basic service customer base through continued effective marketing, a competitive product offering and superior customer service. However, the strength of the competition in the regions served by Cogeco Cable could partly compromise the attainment of this objective. As penetration of HSI services increases, growth in that service is likely to level off. However, growth in digital services should remain relatively stable. Based on the current competitive environment and demand, the Corporation anticipates gaining up to 3,000 basic service customers, 32,000 to 37,000 HSI service customers, 60,000 to 65,000 digital terminals and 32,000 to 37,000 digital telephony service customers by August 31, 2006.

The Corporation expects to achieve revenue growth between 6% to 7%. About 45% and 40% of services revenue growth should stem from the increase in penetration of HSI services in fiscal 2005 and 2006 and the launch of digital telephony, respectively. The balance should stem mostly from rate increases implemented in June and August and from wider penetration of digital services. The demand for HSI services will likely slow down but should be compensated by increased demand for digital telephony services.

Revenue increase should contribute to Operating Income growth of approximately 3% to 4%. The Operating Margin should decline, compared to fiscal 2005, to about 40% due to the launch of Cogeco Cable's digital telephony service in most of its major markets. The digital telephony service will contribute to a $4 million decline in Operating Income.

Cogeco Cable expects amortization of fixed assets and deferred charges to decrease by $10 million mainly due to a reduction in the amortization of subsidies for residential equipments, digital terminals and cable modems. Financial expense should remain stable.

Capital expenditures and deferred charges will increase compared to fiscal 2005, primarily as a result of an increase of approximately $18.7 million related to digital telephony (compared to an amount of $5.3 million in fiscal 2005) and from a $4.5 million increase (excluding telephony expenditures) in support capital mainly for improvements in information systems. These increases should be partially offset by a $10.4 million decline in expenditures mainly due to a greater number of digital terminals purchased at the end of fiscal year 2005.

Cash flow from operations should finance capital expenditures and deferred charges planned at $140 million. Free Cash Flow in the order of $35 to $40 million should be generated, a decrease of approximately $8 million compared to fiscal 2005 mainly attributable to the launch of digital telephony in most of networks during fiscal year 2006. Excluding digital telephony, Cogeco Cable's Free Cash Flow should have increased by $15 million compared to fiscal 2005. Cogeco Cable expects that the generated Free Cash Flow will be used mainly to reduce the debt and therefore improve the Corporation's leverage ratios. Cogeco Cable expects to generate net income of approximately $39 million, as a result of growth in Operating Income and a reduction in fixed charges.

ADDITIONAL INFORMATION

This MD&A was prepared on October 31, 2005. Additional information relating to the Corporation, including its Annual Information Form, is available on the SEDAR Web site at www.sedar.com.

The Consolidated Financial Statements are presented in the following sections:

MANAGEMENT'S RESPONSIBILITY

Related to the Consolidated Financial Statements

The consolidated financial statements of Cogeco Cable Inc. and the financial information contained in this annual report are the responsibility of management. The financial statements include amounts determined by management based on estimates which in their opinion are reasonable and fair. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. Operating and financial information used elsewhere in the annual report is consistent with that in the financial statements.

In fulfilling its responsibilities, management of Cogeco Cable Inc. and its subsidiaries have developed and continue to improve administrative and accounting systems in order to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and maintains internal accounting controls to ensure that financial records are reliable for preparing the financial statements. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual consolidated financial statements of the Corporation and recommends their approval to the Board of Directors. The Committee periodically meets with management and the external auditors to discuss the results of the external and internal examinations and matters having an impact on financial information.

The external auditors appointed by the shareholders, Deloitte & Touche LLP, Chartered Accountants, are responsible for making an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and to issue an opinion on the statements. The external auditors have free access to the Audit Committee, with or without the presence of management. Their report follows.

Louis Audet
President and Chief Executive Officer

Pierre Gagné
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Cogeco Cable Inc.

We have audited the consolidated balance sheets of Cogeco Cable Inc. as at August 31, 2005 and 2004 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 2005 and 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Montréal, October 7, 2005

CONSOLIDATED STATEMENTS OF INCOME

Years ended August 31, (in thousands of dollars, except per share data)	2005 $	2004 $
Revenue		
Service	**550,711**	518,401
Equipment	**3,693**	8,079
	554,404	526,480
Operating costs (note 1k))	**318,704**	315,208
Management fees – COGECO Inc. (note 15)	**8,179**	8,026
Operating income before amortization	**227,521**	203,246
Amortization (note 2)	**125,088**	140,214
Operating income	**102,433**	63,032
Financial expense (note 8)	**55,692**	57,957
Income before income taxes	**46,741**	5,075
Income taxes (note 3)	**18,020**	37,269
Net income (loss)	**28,721**	(32,194)
Earnings (loss) per share (note 10)		
Basic and diluted	**0.72**	(0.81)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended August 31, (in thousands of dollars)	2005 $	2004 $
Balance at beginning		
As previously reported	**33,880**	95,677
Changes in accounting policies (note 1c)v))	**–**	(29,603)
As restated	**33,880**	66,074
Net income (loss)	**28,721**	(32,194)
Dividends on multiple voting shares	**(1,569)**	–
Dividends on subordinate voting shares	**(2,428)**	–
Balance at end	**58,604**	33,880

CONSOLIDATED BALANCE SHEETS

As at August 31, (in thousands of dollars)	2005 $	2004 $
Assets		
Current		
Cash and cash equivalents	61	—
Accounts receivable	26,485	31,039
Prepaid expenses	3,946	4,535
	30,492	35,574
Fixed assets (note 4)	697,526	687,960
Deferred charges (note 5)	38,226	48,293
Customer base (note 6)	989,552	989,552
	1,755,796	1,761,379
Liabilities and Shareholders' equity		
Liabilities		
Current		
Bank indebtedness (note 7)	—	5,410
Accounts payable and accrued liabilities	125,090	109,402
Income tax liabilities	678	844
Deferred and prepaid income	24,907	22,778
Current portion of long-term debt (note 8)	1,322	2,455
	151,997	140,889
Long-term debt (note 8)	691,159	750,268
Deferred and prepaid income	10,522	9,659
Pension plans liabilities and accrued employees benefits	1,903	1,506
Future income tax liabilities (note 3)	210,731	195,523
	1,066,312	1,097,845
Commitments and contingencies (note 14)		
Shareholders' equity		
Capital stock (note 9)	630,220	629,416
Retained earnings	58,604	33,880
Contributed surplus – stock-based compensation (note 1 c)vi))	660	238
	689,484	663,534
	1,755,796	1,761,379

On behalf of the Board of Directors,

Jan Peeters
Director

Harry A. King
Director

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended August 31, (in thousands of dollars)	2005 $	2004 $
Cash flow from operating activities		
Net income (loss)	**28,721**	(32,194)
Items not affecting cash and cash equivalents		
Amortization (note 2)	**125,088**	140,214
Amortization of deferred financing costs	**958**	1,223
Future income taxes (note 3)	**15,208**	35,143
Other	**963**	392
Cash flow from operations	**170,938**	144,778
Changes in non-cash operating items (note 12a))	**23,657**	4,302
	194,595	149,080
Cash flow from investing activities		
Acquisition of fixed assets (note 12b))	**(110,365)**	(78,639)
Increase in deferred charges	**(13,382)**	(20,022)
Other	**44**	59
	(123,703)	(98,602)
Cash flow from financing activities		
Increase (decrease) in bank indebtedness	**(5,410)**	3,516
Repayment of long-term debt	**(62,166)**	(54,395)
Issue of subordinate voting shares	**742**	401
Dividends on multiple voting shares	**(1,569)**	–
Dividends on subordinate voting shares	**(2,428)**	–
	(70,831)	(50,478)
Net change in cash and cash equivalents and cash and cash equivalents at end	**61**	–

See supplemental cash flow information in note 12.

1 SIGNIFICANT ACCOUNTING POLICIES

a) Nature of operations

Cogeco Cable Inc. (the "Corporation") is a Canadian public company whose shares are listed on the Toronto Stock Exchange. The Corporation's core business is providing cable television services, high-speed Internet access and digital telephony services.

b) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Business acquisitions are accounted for under the purchase method and operating results are included in the consolidated financial statements as of the date of the acquisition of control. Other investments are recorded at cost.

c) Recent accounting pronouncements and changes in accounting policies

Adopted during fiscal year 2005

i) Asset Retirement Obligations

In March 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook section 3110, *Asset Retirement Obligations*, which provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standard applies to legal or contractual obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction, development or normal operations. The standard requires the Corporation to record the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The standard describes the fair value of a liability for an asset retirement obligation as the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. The Corporation is subsequently required to allocate that asset retirement cost to the expense using a systematic and rational method over the asset's useful life. The standard applies to fiscal years beginning on or after January 1, 2004. Certain lease agreements contain provisions requiring the Corporation to restore facilities or remove equipment in the event that the lease agreement is not renewed. However, the Corporation expects to renew most of its lease agreements related to the continued operation of its cable business and consequently, any liabilities related to the removal provisions on non-renewed leases, if any, are considered not significant to these consolidated financial statements.

ii) Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), *Consolidation of Variable Interest Entities*, which defines Variable Interest Entities as entities that have insufficient equity or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The standard provides guidance for determining when an entity is a Variable Interest Entity and which entity, if anyone, should consolidate the Variable Interest Entity. The Guideline applies to all annual and interim periods beginning on or after November 1, 2004. During fiscal year 2005, the Corporation adopted this new accounting guideline and concluded that it has no significant impact on these consolidated financial statements.

Adopted during fiscal year 2004

iii) Amortization of long-term assets

Effective September 1, 2003, the Corporation reviewed the useful life of its decoders and modems, commonly referred to as home terminal devices, and of certain other long-term assets. The useful life of decoders was changed from seven to five years while the useful life of modems was changed from seven to three years. These changes in accounting estimates, applied prospectively, increased amortization expense by $14,000,000 for the year ended August 31, 2004.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) Impairment of long-lived assets

In December 2002, the CICA issued Handbook section 3063, *Impairment of long-lived assets* which modified existing guidance on long-lived assets impairment measurements and established standards for the recognition, measurement and disclosure of the impairment of long-lived assets. The new standards require that an impairment loss be recognized when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected from this asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. The adoption of these new recommendations in 2004 had no impact on the Corporation's consolidated financial statements for the years ended August 31, 2005 and 2004.

v) Revenue recognition

On December 17, 2003, the Emerging Issues Committee issued EIC-141, *Revenue recognition*, which provides general interpretative guidance on the application of CICA 3400, *Revenue*, and summarizes the principles set forth in "Staff Accounting Bulletin" No. 101 ("SAB 101") published in the United States. In addition, EIC-141 also provides additional guidance on the capitalization of direct incremental costs in connection with up-front revenue. At the same time, the committee also issued EIC-142, *Revenue arrangements with multiple deliverables*, which addresses how to determine when an arrangement involving multiple deliverables contains more than one unit of accounting and if so, how the arrangement consideration should be measured and allocated among each separate unit of accounting.

During fiscal year 2004, the Corporation applied these new recommendations and determined that it has multiple revenue arrangements comprised of installation services, sales of home terminal devices and related subscription services. Based on the criteria of EIC-142, the Corporation determined that the sale of home terminal devices is considered a single unit of accounting of a multiple element arrangement, while installation and related subscription services must be assessed as an integrated package. In addition, certain direct incremental costs in connection with installation revenue may be deferred over the same term as the related revenue. Accordingly, the following changes were adopted retroactively:

- Installation revenue are now deferred and amortized over the average life of a customer's subscription, which is four years. Previously, these revenue were recognized immediately as they were considered as a partial recovery of direct selling costs incurred. Upon billing, the portion of unearned revenue is now recorded as deferred and prepaid income;
- The costs to reconnect customers are now recorded as deferred charges up to a maximum amount not exceeding the revenue generated by the reconnect activity, which are included in installation revenue, and amortized over the average life of a customer's subscription, which is four years. Previously, these costs, which include materials, direct labor and certain overhead charges were capitalized to fixed assets and generally amortized over a period of five years;
- Revenue from the sale of home terminal devices at a subsidized price, which were recorded as a partial recovery of costs, are now recorded as equipment revenue with an equal amount included in operating costs;
- The portion of advertising expense incurred to expand the digital and high-speed Internet customer base that used to be recorded as deferred charges is now recorded as operating costs.

1 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

These changes, relating to revenue recognition, have been applied retroactively and had the following impact on the Corporation's financial statements:

Year ended August 31, 2004 (amounts are in thousands of dollars, except per share data)	Before adoption $	After adoption $
Revenue	519,753	526,480
Operating costs	300,503	315,208
Amortization	136,072	140,214
Income taxes	43,831	37,269
Net loss	(26,636)	(32,194)
Loss per share		
Basic and diluted	(0.67)	(0.81)

August 31, 2004 (amounts are in thousands of dollars)	Before adoption $	After adoption $
Fixed assets	739,547	687,960
Deferred charges	34,273	48,293
Deferred and prepaid income	16,070	32,437
Future income tax liabilities	214,296	195,523
Retained earnings	69,041	33,880

Consequently, retained earnings have been reduced by $29,603,000 as at September 1, 2003 following these changes.

vi) Stock-based compensation and other stock-based payments

On September 1, 2003, the Corporation early adopted the recommendations of CICA Handbook section 3870, *Stock-based Compensation and Other Stock-based Payments*, which defines, among other things, recognition, measurement and disclosure standards for stock-based compensation. The standard requires the Corporation to use a fair value based method for all options granted. The Corporation, as permitted by CICA Handbook section 3870, has chosen to apply the new recommendations on a prospective basis. Prior to September 1, 2003, the Corporation accounted for stock-based compensation by measuring compensation cost for employee stock options as the excess, if any, of the quoted market price of the subordinate voting shares at the date of grant over the amount an employee must pay to acquire these shares, and included in the notes to the financial statements pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied. Any consideration paid by employees on exercise of stock options was credited to capital stock. Effective September 1, 2003, the Corporation adopted the fair value based method and began accounting for stock options by measuring the compensation cost for options granted on or after September 1, 2003 by using the Binomial option pricing model. As a result of applying these new recommendations, a compensation expense of $484,000 ($238,000 in 2004) was recorded for the year ended August 31, 2005. Supplementary information required under the new recommendations is presented in note 9.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

vii) Hedging relationships

In December 2001, the CICA issued Accounting Guideline 13 ("AcG-13"), *Hedging relationships*, which establishes the criteria for identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The Emerging Issues Committee also issued in June 2002, EIC-128, *Accounting for trading speculative or non-hedging derivative financial instruments*, which establishes that a derivative financial instrument that does not qualify for hedge accounting under AcG-13 should be recognized on the balance sheet at fair value, with changes in fair value recognized in net income. The Corporation adopted the recommendations of AcG-13 on September 1, 2003. Since the Corporation is in compliance with the requirements of AcG-13 for its derivative financial instruments, the adoption of these new recommendations had no impact on the Corporation's consolidated financial statements.

viii) Generally accepted accounting principles hierarchy

In June 2003, the CICA issued Handbook section 1100, *Generally accepted accounting principles*, which establishes standards for financial reporting in accordance with generally accepted accounting principles and identifies other sources to be consulted in selecting accounting policies and disclosures when a matter is not dealt with explicitly in the primary source of generally accepted accounting principles. These new recommendations apply to fiscal years beginning on or after October 1, 2003. The Corporation examined these new recommendations and concluded that, except for the application of the new accounting policies on revenue recognition, there was no impact on its financial statements.

Future accounting pronouncements

ix) Financial Instruments, Hedges and Comprehensive Income

In January 2005, the CICA issued Handbook section 3855, *Financial Instruments – Recognition and Measurement*, Handbook section 3865, *Hedges* and Handbook section 1530, *Comprehensive Income*.

Section 3855 establishes standards for recognition and measurement of financial assets, financial liabilities and non-financial derivatives. The standard specifies when and to which amount a financial instrument is to be recorded on the balance sheet. Financial instruments are to be recorded at fair value in some cases, and at cost in others. The section also provides guidance for disclosure of gains and losses on financial instruments.

Section 3865 includes and replaces the guidance on hedging relationships that was previously contained in AcG-13, mostly those relating to the designation of hedging relationships and its documentation. The new standard modifies the guidance included in Section 1650, *Foreign Currency Translation*, specifying how to apply hedge accounting and which information has to be disclosed by the entity.

Section 1530 establishes standards for reporting and display of comprehensive income. Comprehensive income includes net income as well as all changes in equity during a period, from transactions and events from non-owner sources. Comprehensive income and its components should be presented in a financial statement with the same prominence as other financial statements.

These sections are to be applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Corporation is currently evaluating the impact of these new standards.

d) Revenue recognition

The Corporation considers revenue to be earned as services are rendered, provided that ultimate collection is reasonably assured. The Corporation earns revenue from several sources. The recognition of revenue from the principal sources is as follows:

- Revenue from cable television and related services, and from high-speed Internet access and digital telephony services are recognized when services are provided;
- Revenue generated from sales of home terminal devices are recorded as equipment revenue upon activation of services;
- Installation revenue are deferred and amortized over the average life of a customer's subscription, which is four years;
- Promotional offers are accounted as a deduction of revenue when customers are taking advantage of such offer.

Amounts received or invoiced that do not comply with these criteria are accounted for as deferred and prepaid income.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Fixed assets

Fixed assets are recorded at cost. During construction of new assets, direct costs plus a portion of overhead costs are capitalized. Financial expense incurred during construction is expensed. Amortization is provided principally on a straight-line method over the estimated useful lives over the following periods:

Buildings	40 years
Cable systems	5 to 15 years
Equipment, programming equipment, furniture and fixtures	10 years
Home terminal devices	3 to 5 years
Rolling stock under capital leases	5 years
Other equipment	5 years
Leasehold improvements	Lease term

f) Deferred charges

Deferred charges with anticipated future benefits include new services launch costs, equipment subsidies, reconnect costs and financing costs. New services launch costs and financing costs are amortized using the straight-line method, over a period not exceeding five years. Equipment subsidies and reconnect costs are amortized over the average life of a customer's subscription, which is four years.

g) Customer base

The customer base represents the difference between the price paid and the fair value attributed to tangible and intangible assets upon acquisition of cable systems. Customer base is considered to have a deemed indefinite life and consequently is not amortized, but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

h) Income taxes

Income taxes are accounted for under the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

i) Segmented information

The Corporation considers its cable distribution, high-speed Internet access and digital telephony activities as a single operating segment.

j) Employees future benefits

The pension costs, recorded in operating costs, related to the defined contribution pension plan and the collective registered retirement saving plan are equivalent to the contributions which the Corporation is required to pay in exchange for services provided by employees.

Pension costs for defined benefit pension plans are determined using actuarial methods and are funded through contributions determined in accordance with the projected benefit method prorated on service. Pension expense is charged to operating costs and includes:

- The cost of pension benefits provided in exchange for employees' services rendered during the year;
- The amortization of prior service costs and amendments over the expected average remaining service life of the active employee group covered by the plans, which is ten years; and
- The interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets over the expected average remaining service life of the active employee group covered by the plans, which is ten years.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Foreign currency translation

Assets and liabilities denominated in foreign currency are translated in Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at transaction date for non-monetary items. Income and expenses are translated at average rates prevailing during the period except for transactions being hedged which were translated using the terms of the hedges. Amounts payable or receivable on currency derivatives, all of which are used to hedge foreign currency debt obligations and anticipated transactions are recorded concurrently with the unrealized gains and losses on the obligations being hedged. Other foreign exchange gains and losses are included in net income. During fiscal year 2005, the Corporation realized a foreign exchange gain amounting to $748,000 ($697,000 in 2004).

l) Derivative financial instruments

The Corporation uses currency swap agreements and foreign exchange forward contracts as derivative financial instruments to manage risks from fluctuations in exchange rates related to its long-term debt and accounts payable. The Corporation accounts for the financial instruments, under the accrual method, as hedges and, accordingly, the carrying value of the financial instruments are not adjusted to reflect their current market value. The Corporation does not hold or use any derivative instruments for speculative trading purposes. Net receipts or payments arising from currency swap agreements are recognized as financial expense.

m) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments which have an original maturity of three months or less.

n) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and the revenue and expenses during the reporting year. Significant areas requiring the use of management estimates relate to the determination of pension plans liabilities and accrued employee benefits, the determination of allowance for doubtful accounts, the useful life of assets for amortization, the determination of future cash flows for the purpose of impairment testing on all long-lived assets and customer base, the provision for income taxes and determination of future income tax assets and liabilities, and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

2 AMORTIZATION

(amounts are in thousands of dollars)	**2005** **$**	2004 $
Fixed assets	**102,597**	116,522
Deferred charges	**22,491**	23,692
	125,088	140,214

3 INCOME TAXES

(amounts are in thousands of dollars)	**2005** **$**	2004 $
Current	**2,812**	2,126
Future	**15,208**	35,143
	18,020	37,269

3 **INCOME TAXES** (continued)

The following table provides the reconciliation between statutory federal and provincial income taxes and the consolidated income tax expense:

(amounts are in thousands of dollars)	**2005** **$**	2004 $
Income tax at combined income tax rate of 34.96% (35.35% in 2004)	**16,341**	1,794
Loss or income subject to lower or higher tax rates	**(218)**	131
Increase in income taxes as a result of increases in substantially enacted tax rates	**–**	32,483
Large corporation tax	**1,482**	3,700
Other	**415**	(839)
Income tax at effective income tax rate	**18,020**	37,269

The income tax effect of temporary differences that give rise to a significant portion of future income tax assets and liabilities are as follows:

(amounts are in thousands of dollars)	**2005** **$**	2004 $
Future income tax assets:		
Non-capital loss carryforwards	**29,931**	49,805
Deferred and prepaid income	**6,328**	5,740
Other	**913**	1,213
Total future income tax assets	**37,172**	56,758
Future income tax liabilities:		
Fixed assets	**62,350**	64,750
Deferred charges	**12,961**	16,132
Customer base	**172,592**	171,399
Total future income tax liabilities	**247,903**	252,281
Net future income tax liabilities	**210,731**	195,523

3 INCOME TAXES (continued)

As at August 31, 2005, the Corporation and its subsidiaries had accumulated income tax losses amounting to approximatively $86,618,000, the benefits of which have been recognized in these financial statements. These losses expire as follows:

(amounts are in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $	2014 $
	—	3,882	40,524	39,194	1,011	2,007

4 FIXED ASSETS

(amounts are in thousands of dollars)	**2005** **$**	2004 $
Cost		
Land	**3,787**	3,788
Buildings	**31,977**	31,536
Cable systems	**1,039,584**	981,509
Equipment, programming equipment, furniture and fixtures	**42,179**	40,310
Home terminal devices	**77,661**	85,656
Rolling stock under capital leases	**5,962**	3,103
Other equipment	**43,623**	82,203
Leasehold improvements	**4,318**	4,291
	1,249,091	1,232,396
Accumulated amortization		
Buildings	**7,764**	7,004
Cable systems	**443,133**	395,126
Equipment, programming equipment, furniture and fixtures	**24,437**	22,109
Home terminal devices	**41,680**	60,762
Rolling stock under capital leases	**1,899**	2,774
Other equipment	**30,081**	54,374
Leasehold improvements	**2,571**	2,287
	551,565	544,436
	697,526	687,960

5 DEFERRED CHARGES, NET OF AMORTIZATION

(amounts are in thousands of dollars)	2005 $	2004 $
New services launch costs	**2,067**	3,398
Reconnect costs	**21,646**	21,833
Equipment subsidies	**13,249**	20,875
Financing costs	**1,262**	2,152
Other	**2**	35
	38,226	48,293

6 CUSTOMER BASE

(amounts are in thousands of dollars)	2005 $	2004 $
Cost	**1,040,333**	1,040,333
Accumulated amortization	**50,781**	50,781
	989,552	989,552

At August 31, 2005 and 2004, the Corporation tested the value of customer base for impairment and concluded that no impairment existed.

7 BANK INDEBTEDNESS

The operating line of credit available to the Corporation amounts to $25,000,000, none of which was used at August 31, 2005 ($4,610,000 in 2004). This line of credit is revised periodically, does not require commitment fees and bear interest at bank prime rate plus 0.25%. At August 31, 2005, the interest rate on bank indebtedness is 4.50% (4.00% in 2004). This line of credit is payable on demand and is secured on the same basis as the Term Facility (note 8a)).

8 LONG-TERM DEBT

(amounts are in thousands of dollars)	Maturity	Interest rate %	2005 $	2004 $
Parent company				
Term Facility	2007	–	**–**	58,000
Senior Secured Debentures Series 1	2009	6.75	**150,000**	150,000
Senior – Secured Notes				
Series A – US $150 million	2008	6.83	**178,065**	196,950
Series B	2011	7.73	**175,000**	175,000
Second Secured Debentures Series A	2007	8.44	**125,000**	125,000
Deferred credit	2008	–	**60,585**	41,700
Subsidiaries				
Obligations under capital leases	2010	5.87 – 8.36	**3,831**	3,153
Preferred shares[1]	–	–	**–**	2,920
			692,481	752,723
Less current portion			**1,322**	2,455
			691,159	750,268

(1) 2,920,000 preferred shares in 2004, 5.5% cumulative dividend, redeemed in 2005 for a cash consideration of $3,004,000.

Interest on long-term debt amounted to $52,868,000 ($54,408,000 in 2004).

a) The Term Facility of $270,000,000 is repayable at any time without penalty but no later than January 31, 2007, and will be reduced to $95,000,000 as at January 31, 2006. The Term Facility requires commitment fees, and interest rates are based, at the Corporation's option, on bankers' acceptance plus stamping fees or bank prime rates plus stamping fees.

The Term Facility and the operating line of credit described in note 7 are secured by a first fixed and floating charge on the assets of the Corporation and certain of its subsidiaries except for permitted encumbrances, including purchased money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary subject to a maximum amount in proportion to consolidated assets. The provisions under these facilities provide for restrictions on the operations and activities of the Corporation. Generally, the most significant restrictions relate to permitted investments, dividends on multiple and subordinate voting shares and reimbursement of long-term debt as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before amortization, financial expense, fixed charges and total indebtedness.

b) The Senior Secured Debentures Series 1 are redeemable at the Corporation's option, in whole or in part, at the greater of par value or the Canada bond yield plus 0.3%. These debentures mature on June 4, 2009 and bear interest at 6.75% per annum, payable semi-annually. These debentures are indirectly secured by a first fixed and floating charge and a security interest on all assets of the Corporation and certain of its subsidiaries.

c) The Senior Secured Notes are senior secured obligations and rank equally and rateably with all existing and future senior indebtedness. These notes are indirectly secured by a first fixed and floating charge and a security interest on all assets of the Corporation and certain of its subsidiaries. The notes are redeemable at the Corporation's option at any time, in whole or in part, prior to maturity at 100% of the principal amount plus a make-whole premium. The Series A mature on October 31, 2008 and the Series B mature on October 31, 2011. The Senior Secured Notes Series B have an interest coupon rate of 7.73% per annum, payable semi-annually. On November 1, 2001, the Corporation entered into cross-currency swap agreements to fix the liability for interest and principal payments on US $150,000,000 of its Senior Notes Series A which have an interest coupon rate of 6.83% per annum, payable semi-annually. These agreements have resulted in an effective interest rate of 7.254% on the Canadian dollar equivalent of the US debt. The exchange rate applicable to the principal portion of the debt has been fixed at CDN $1.5910.

8 LONG-TERM DEBT (continued)

d) The Second Secured Debentures Series A are redeemable at the Corporation's option, in whole or in part, at the greater of par value or Canada bond yield plus 0.5%. These debentures mature on July 31, 2007, and bear interest at 8.44% per annum, payable semi-annually. These debentures are secured by second fixed charges on certain assets and floating charges on all assets of the Corporation and certain of its subsidiaries.

e) The deferred credit represents the amount which would have been payable at August 31, 2005 and 2004 under cross-currency swaps entered into by the Corporation to hedge Senior Secured Notes Series A denominated in US dollars (note 8 c)).

f) Principal repayments due on long-term debt for the next five years, excluding those under capital leases, are as follows:

(amounts are in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $
	–	125,000	–	388,650	–

g) Minimum payments due under capital leases total $4,259,000 of which $428,000 represents financial expense and are as follows:

(amounts are in thousands of dollars)	2006 $	2007 $	2008 $	2009 $	2010 $
	1,547	1,351	975	381	5

9 CAPITAL STOCK

Authorized

Unlimited number of:

Class A Preference shares, without voting rights, redeemable by the Corporation and retractable at the option of the holder at any time at a price of $1 per share, carrying a cumulative preferential cash dividend at a rate of 11% of the redemption price per year.

Class B Preference shares, without voting rights, issuable in series.

Multiple voting shares, 10 votes per share.

Subordinate voting shares, 1 vote per share.

Issued

(amounts are in thousands of dollars, except number of shares)	**2005** **$**	2004 $
15,691,100 multiple voting shares	**98,346**	98,346
24,293,486 subordinate voting shares (24,232,815 in 2004)	**531,874**	531,070
	630,220	629,416

9 **CAPITAL STOCK** (continued)

During the year, subordinate voting shares transactions were as follows:

	2005		2004	
(amounts are in thousands of dollars, except number of shares)	**Number of shares**	**Amount $**	Number of shares	Amount $
Balance at beginning	**24,232,815**	**531,070**	24,190,043	530,669
Shares issued for cash under the Employee Stock Purchase Plan and the Stock Option Plan	**60,671**	**742**	42,772	401
Compensation expense previously recorded in contributed surplus for options exercised	**—**	**62**	—	—
Balance at end	**24,293,486**	**531,874**	24,232,815	531,070

During 2005, the Corporation issued 5,209 shares (9,768 shares in 2004) pursuant to its Employee Stock Purchase Plan for a cash consideration of $111,000 ($137,000 in 2004). Also, the Corporation issued 55,462 shares (33,004 shares in 2004) pursuant to its Employee Stock Option Plan for a cash consideration of $631,000 ($264,000 in 2004).

Stock-based plans

The Corporation established, for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives. Under these plans, no more than 10% of the outstanding subordinate voting shares are available.

Stock Purchase Plan

The Employee Stock Purchase Plan is accessible to all employees up to a maximum of 5% of their annual salary. The subscription date is December 31 and the subscription price is based on the average market price of the shares of the last five business days of November less 10%. A maximum of 167,500 shares are available, up to 40,000 annually, under this plan.

Stock Option Plan

A total of 1,832,500 subordinate voting shares are reserved for the purpose of the Stock Option Plan. The minimum purchase price at which options are granted is not less than the market value of such shares at the time the option is granted. Granted options vest 20% per year beginning the day such options are granted and are exercisable over 10 years. During fiscal year 2005, the Corporation granted 140,766 stock options (164,980 in 2004) with an exercise price of $21.50 ($15.70 to $18.12 in 2004) of which 38,397 stock options (48,037 in 2004) were granted to COGECO Inc.' employees. For the exercise of options granted on or after October 17, 2003, an amount equivalent to 20% of net gain after related taxes must be kept in shares of the Corporation until termination of employment with the Corporation or retirement.

9 CAPITAL STOCK (continued)

Under the Stock Option Plan, the following options were granted by the Corporation and are outstanding as at August 31:

	2005		2004	
	Options	**Weighted average exercise price $**	Options	Weighted average exercise price $
Outstanding, beginning of year	**509,515**	**17.42**	378,882	16.99
Granted	**140,766**	**21.50**	164,980	16.56
Exercised	**(55,462)**	**11.38**	(33,004)	8.00
Forfeited	**(4,096)**	**14.35**	(1,343)	23.45
Outstanding, end of year	**590,723**	**18.98**	509,515	17.42
Exercisable, end of year	**326,851**	**19.74**	250,774	19.12

At August 31, 2005, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices $	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable	Weighted average exercise price $
7.05	86,084	7.17	7.05	51,650	7.05
14.30 to 18.12	163,190	7.92	16.42	70,646	16.26
20.40 to 25.20	321,543	7.25	22.39	184,649	22.82
36.10 to 40.75	19,906	5.13	36.39	19,906	36.39
	590,723	7.35	18.98	326,851	19.74

9 CAPITAL STOCK (continued)

The Corporation recorded compensation expense for options granted on or after September 1, 2003. If compensation cost had been recognized using the fair value-based method at the grant date for options granted between September 1, 2001 and August 31, 2003, the Corporation's net income (loss) and earnings (loss) per share for the years ended August 31, 2005 and 2004 would have been reduced (increased) to the following pro forma amounts:

(amounts are in thousands of dollars, except per share data)	2005 $	2004 $
Net income (loss)		
As reported	**28,721**	(32,194)
Pro forma	**28,337**	(32,578)
Basic and diluted earnings (loss) per share		
As reported	**0.72**	(0.81)
Pro forma	**0.71**	(0.82)

The fair value of each option granted was estimated on the grant date for purposes of determining stock-based compensation expense using the Binomial option pricing model based on the following assumptions:

(in percentage, except expected life in years)	2005 %	2004 %
Expected dividend yield	**1.27**	1.27
Expected volatility	**43**	49
Risk-free interest rate	**3.70**	4.04
Expected life in years	**4.0**	3.9

The fair value of stock options granted for the year ended August 31, 2005 was $7.46 ($6.53 in 2004) per option.

For purpose of compensation expense and pro forma disclosures, stock-based compensation is amortized to expense on a straight-line basis over the vesting period, which is four years.

The Binomial option pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option pricing models require the use of highly subjective assumptions including the expected stock price volatility. Because the Corporation's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can have a significant effect on the fair value estimate, in management's opinion, the existing option pricing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

9 CAPITAL STOCK (continued)

Performance Unit Plan

The Corporation has also adopted a Performance Unit Plan for key employees. The value of a performance unit granted is equal to the closing price of the subordinate voting shares of the Corporation on the Toronto Stock Exchange on the trading day preceding the date of grant of the unit. The units credited to the participant's account will become vested to the participant on the third anniversary of the date of grant of the said performance units. The units credited before October 17, 2003, will be redeemed only at the termination of the participant's employment or in case of retirement or death. The units credited to the participant's account on or after October 17, 2003, which are vested to the participant may also be redeemed, at the request of the participant at the following conditions:

i) Invest an amount equal to 20% of the net income after related tax resulting from any such realization in shares of the Corporation;

ii) Hold such shares until the termination of his employment with the Corporation or his retirement.

Each unit credited gives the right to a Dividend Equivalent equal to the amount of dividend per share paid on the subordinate voting shares of the Corporation. The Dividend Equivalent is converted into additional units. The units do not confer on the participant the right to acquire shares or other securities of the Corporation under any circumstances and the participant shall not, by holding units or otherwise be considered a shareholder of the Corporation nor have any rights to become a shareholder as a result. In 2005, an expense amounting to $197,000 ($101,000 in 2004) has been recorded related to this plan.

10 EARNINGS (LOSS) PER SHARE

The following table provides a reconciliation between basic and diluted earnings (loss) per share:

(amounts are in thousands of dollars, except number of shares and per share data)	**2005** **$**	2004 $
Net income (loss)	**28,721**	(32,194)
Weighted average number of multiple voting and subordinate voting shares outstanding	**39,964,857**	39,901,595
Effect of dilutive stock options [1]	**161,587**	–
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	**40,126,444**	39,901,595
Earnings (loss) per share		
Basic and diluted	**0.72**	(0.81)

[1] In 2005, a total of 55,665 stock options were excluded from the calculation of diluted earnings per share since the exercice price of the options was greater than the average share price of the subordinate voting shares. In 2004, the effect of 279,079 stock options was not included in diluted loss per share, as the effect of their inclusion was antidilutive.

11 FINANCIAL INSTRUMENTS

Fair value

The Corporation uses the following methods and assumptions to evaluate fair market value of financial instruments:

Accounts receivable, cash and cash equivalents, bank indebtedness and accounts payable and accrued liabilities
The carrying amount in the consolidated balance sheets approximates fair value because of the short-term nature of these instruments.

Long-term debt

a) Financial expense under the terms of the Corporation's Term Facility is based upon bankers' acceptance plus stamping fees or bank prime rates plus stamping fees. Therefore, carrying value is considered to represent fair market value for the Term Facility.

b) The fair value of the Senior Secured Debentures Series 1, Senior Secured Notes Series A and B, and Second Secured Debentures Series A, is based upon current trading values for similar financial instruments.

c) The carrying values of obligations under capital leases and other items of the long-term debt approximate fair value of these financial instruments due to their terms.

d) The fair value of the derivative financial instruments is based upon available information about the financial instruments and market conditions.

The estimated fair values of long-term debt instruments and derivative instruments are as follows:

	2005		2004	
(amounts are in thousands of dollars)	**Carrying amount $**	**Estimated fair value $**	Carrying amount $	Estimated fair value $
Long-term debt	**631,896**	**679,461**	711,023	722,431
Derivative financial instruments – liability position	**60,585**	**74,972**	41,700	45,622

Fair values are estimated at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risks

The Corporation's credit risk arises from the possibility that counterparts to the foreign exchange forward contracts and the cross-currency swap agreements may default on their obligations. The Corporation reduces risk by completing transactions with financial institutions that carry a credit rating equal or superior to A+. In addition, since the Corporation has a large and diversified clientele, credit risk concentration from customers is minimal.

12 STATEMENTS OF CASH FLOW

a) Changes in non-cash operating items

(amounts are in thousands of dollars)	**2005** **$**	2004 $
Accounts receivable	**4,554**	2,761
Prepaid expenses	**589**	(1,602)
Accounts payable and accrued liabilities	**15,688**	(174)
Income tax liabilities	**(166)**	112
Deferred and prepaid income	**2,992**	3,205
	23,657	4,302

b) Fixed assets

During the year, fixed assets acquisitions amounted to $112,289,000 ($81,222,000 in 2004), $1,924,000 ($2,583,000 in 2004) of which were acquired through capital leases. Disbursements for the purchase of fixed assets totalled $110,365,000 ($78,639,000 in 2004).

c) Other information

(amounts are in thousands of dollars)	**2005** **$**	2004 $
Interest paid	**54,438**	56,654
Income taxes paid	**2,978**	2,014

13 EMPLOYEES FUTURE BENEFITS

The Corporation and its subsidiaries offer their employees contributory defined benefit pension plans, a defined contribution pension plan or a collective registered retirement savings plan. With respect to the last two plans, the Corporation and its subsidiaries' obligations are limited to the payment of the monthly employer's portion. Expenses related to these two plans amounted to $1,239,000 ($1,247,000 in 2004).

The defined benefit pension plans provide pensions based on the number of years of service and the average salary during the employment of each participant. In addition, the Corporation and its subsidiaries offer certain executives a supplementary pension plan. The Corporation measures plans' assets at fair value and the accrued benefit obligation as at August 31 of each year for all plans. The most recent actuarial valuation of the pension plans were as of August 31, 2004 and the next required valuation will be as of August 31, 2005.

13 EMPLOYEES FUTURE BENEFITS (continued)

The following table provides a reconciliation of the change in the plans' benefit obligations and plans' assets at fair value and a statement of the funded status as at August 31:

(amounts are in thousands of dollars)	2005 $	2004 $
Accrued benefit obligation		
Accrued benefit obligation at beginning of year	**6,474**	6,469
Current service cost	**454**	355
Interest cost	**462**	388
Contributions by plans' participants	**160**	133
Benefits paid	**(205)**	(192)
Actuarial loss (gain) on obligation	**1,934**	(679)
Accrued benefit obligation at end of year	**9,279**	6,474
Plans' assets at fair value		
Plans' assets at fair value at beginning of year	**4,561**	3,887
Actual return on plans' assets	**730**	283
Contributions by plans' participants	**160**	133
Employer contributions	**458**	450
Benefits paid	**(205)**	(192)
Plans' assets at fair value at end of year	**5,704**	4,561
Funded Status		
Plans' assets at fair value	**5,704**	4,561
Accrued benefit obligation	**9,279**	6,474
Plans' deficit	**3,575**	1,913
Net actuarial losses not recognized	**(2,328)**	(865)
Net accrued benefit liability	**1,247**	1,048

The accrued benefit liability is included in the Corporation's balance sheet under pension plans liabilities and accrued employee benefits.

(amounts are in thousands of dollars)	2005 $	2004 $
Defined benefit pension costs		
Current service cost	**454**	355
Interest cost	**462**	388
Actual return on plans' assets	**(730)**	(283)
Difference between expected return and actual return on plans' assets	**385**	(9)
Amortization of net actuarial loss	**86**	99
Net periodic benefit cost	**657**	550

13 EMPLOYEES FUTURE BENEFITS (continued)

Plans' assets consist of:

	2005	2004
	%	%
Equity securities	**62**	64
Debt securities	**32**	34
Other	**6**	2
Total	**100**	100

The significant weighted average assumptions used in measuring the Corporation's pension and other obligations are as follows:

	2005	2004
	%	%
Accrued benefit obligation		
Discount rate	**5.00**	6.25
Rate of compensation increase	**5.00**	5.00
Defined benefit pension costs		
Discount rate	**6.25**	6.50
Expected long-term rate of return on plans' assets	**7.25**	7.25
Rate of compensation increase	**5.00**	5.00

14 COMMITMENTS AND CONTINGENCIES

Commitments

As at August 31, 2005, the Corporation and its subsidiaries are committed under lease agreements and other long term contracts to make annual payments as follows:

(amounts are in thousands of dollars)	2006	2007	2008	2009	2010	2011 and thereafter
	$	$	$	$	$	$
	15,876	13,336	13,161	11,665	10,754	10,836

14 COMMITMENTS AND CONTINGENCIES (continued)

Contingencies

The Corporation and its subsidiaries are involved in matters involving litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Corporation's exposure to litigation to be significant to these financial statements.

Disclosure of guarantees

In the normal course of business, the Corporation enters into agreements containing features that meet the criteria for a guarantee including the following:

Businesses and assets disposal
In connection with the sale of businesses or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation has agreed to indemnify the purchaser against claims related to events which occurred prior to the sale. The term and amount of such indemnification will sometimes be limited by the agreement. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability required to be paid to guaranteed parties. In management's opinion, the likelihood that a significant liability will be incurred under these obligations is low. As at August 31, 2005 and 2004, no liability has been recorded associated with these indemnifications.

Long-term debt
Under the terms of the Senior Secured Notes and the Second Secured Debentures Series A, the Corporation has agreed to indemnify the other parties against changes in regulation relative to withholding taxes. These indemnifications extend for the term of the related financings and do not provide any limit on the maximum potential liability. The nature of the indemnification agreement prevents the Corporation from estimating the maximum potential liability it could be required to pay. As at August 31, 2005 and 2004, no liability has been recorded associated with these indemnifications.

15 RELATED PARTY TRANSACTIONS

Cogeco Cable Inc. is a subsidiary of COGECO Inc. which holds 39.2% of the Corporation's equity shares. On September 1, 1992, Cogeco Cable Inc. executed a management agreement with COGECO Inc. under which the parent company agreed to provide certain executive, administrative, legal, regulatory, strategic and financial planning services and additional services to the Corporation and its subsidiaries (the "Management Agreement"). These services are provided by COGECO Inc.'s officers, including the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer and the Vice President, Corporate Affairs. No direct remuneration is payable to such officers by the Corporation. However, the Corporation granted 38,397 stock options (48,037 in 2004) to COGECO Inc.'s officers during fiscal year 2005.

Under the Management Agreement, the Corporation pays monthly fees equal to 2% of its total revenue to COGECO Inc. for the above mentioned services. In 1997, the management fee was capped at $7,000,000 per year, subject to annual upward adjustment based on increases in the Consumer Price Index in Canada. This limit can be increased under certain circumstances upon request to that effect by COGECO Inc. For fiscal year 2005, the limit and the amount paid to COGECO Inc. in management fees was $8,179,000 ($8,026,000 in 2004). In addition, the Corporation reimburses COGECO Inc.'s out-of-pocket expenses incurred in respect of services provided to the Corporation under the Management Agreement.

Three-Year Financial Highlights

(in thousands of dollars, except other statistics, per share data and ratios)	2005 $	2004 $	2003 (restated) $
Operations			
Revenue	**554,404**	526,480	489,194
Operating Income	**227,521**	203,246	175,609
Financial expense	**55,692**	57,957	61,113
Income before income taxes	**46,741**	5,075	4,262
Net income (loss)	**28,721**	(32,194)	(124)
Cash Flow			
Cash flow from operations	**170,938**	144,778	112,525
Acquistions of fixed assets and increase in deferred charges	**125,671**	101,244	110,119
Free Cash Flow	**45,267**	43,534	2,406
Financial condition			
Fixed assets	**697,526**	687,960	723,273
Net assets employed[1]	**1,595,216**	1,619,540	1,663,936
Total assets	**1,755,796**	1,761,379	1,802,744
Indebtedness	**692,481**	758,133	806,429
Shareholders' equity	**689,484**	663,534	695,089
Other statistics			
Number of shares outstanding at year end	**39,984,586**	39,923,915	39,881,143
Weighted average number of outstanding shares	**39,964,857**	39,901,595	39,881,871
Per share data (basic)			
Operating Income	**5.69**	5.09	4.40
Net income (loss)	**0.72**	(0.81)	(0.00)
Cash flow from operations	**4.28**	3.63	2.82
Return ratios			
Operating Margin[2]	**41.0 %**	38.6 %	35.9 %
Return on average net assets employed[3]	**14.2 %**	12.4 %	10.5 %
Return on equity[4]	**4.2 %**	(4.7)%	(0.0)%
Financial ratios			
Net Indebtedness/Operating Income[6]	**3.0**	3.7	4.6
Interest coverage[5]	**4.1**	3.5	2.9
Net Indebtedness/Shareholders' equity[6]	**1.0**	1.1	1.2

[1] Total assets less cash and cash equivalents, accounts payable and accrued liabilities and deferred and prepaid income.
[2] Operating Income/Revenue.
[3] Operating Income/Average net assets employed.
[4] Net income applicable to multiple voting shares and subordinate voting shares/Average shareholders' equity.
[5] Operating Income/Financial expense.
[6] Indebtedness net of cash and cash equivalents.

CONSOLIDATED CAPITALIZATION

As at August 31, (in thousands of dollars)	2005 $	2004 $	2003 (restated) $
Indebtedness	**692,481**	758,133	806,429
Shareholders' equity	**689,484**	663,534	695,089
Total	**1,381,965**	1,421,667	1,501,518

CREDIT RATINGS

In fiscal 2005, DBRS raised its outlook to positive, while S&P confirmed its stable outlook on Cogeco Cable's ratings.

As at August 31, 2005	DBRS	S&P
Senior Secured Notes, Series A and B	BB (High)	BBB–
Senior Secured Debentures, Series 1	BB (High)	BBB–
Second Secured Debentures, Series A	BB	BB+

SHARE INFORMATION

As at August 31, 2005		
		Registrar/Transfer Agent
Number of multiple voting shares		National Bank Trust
(10 votes per share) outstanding	15,691,100	1100 University Street, 9th Floor
Number of surbordinate voting shares		Montréal (Québec) H3B 2G7
(1 vote per share) outstanding	24,293,486	Tel.: (514) 871-7171
Stock exchange listing	The Toronto Stock Exchange	Tel.: 1 800 341-1419
Trading symbol	CCA.SV	Fax: (514) 871-7442

DIVIDEND POLICY

The Corporation declared a quarterly dividend of $0.02 during the first three quarters and $0.04 during the last quarter of fiscal 2005, totalling $0.10 per share on an annual basis (none were paid in fiscal 2004) to the holders of subordinate voting shares and multiple voting shares.

TRADING STATISTICS

(in dollars, except subordinate voting share volumes)

Quarters ended	Nov. 30 $	Feb. 28 $	May 31 $	Aug. 31 $	2005 Total
The Toronto Stock Exchange					
High	**24.49**	**26.00**	**26.75**	**33.19**	
Low	**20.00**	**23.35**	**24.80**	**25.50**	
Close	**23.60**	**25.59**	**25.85**	**32.45**	
Volume (shares)	**2,550,984**	**2,583,157**	**1,255,912**	**2,830,029**	**9,220,082**

Quarters ended	Nov. 30 $	Feb. 29 $	May 31 $	Aug. 31 $	2004 Total
The Toronto Stock Exchange					
High	18.90	21.98	22.00	22.95	
Low	15.35	15.40	17.85	19.55	
Close	15.45	20.40	21.70	20.39	
Volume (shares)	6,637,602	5,296,122	3,249,800	2,510,464	17,693,988

Number of Customers	2005	2004	2003	2002	2001
Homes Passed	**1,448,733**	1,423,256	1,397,486	1,375,494	1,358,880
Homes Connected[1]	**876,490**	873,546	830,077	843,598	881,731
Revenue-Generating Units	**1,355,818**	1,271,899	1,188,369	1,124,358	1,082,953
Basic Service Customers	**821,433**	823,855	820,657	836,368	878,766
Percent Penetration	**56.7%**	57.9%	58.7%	60.8%	64.7%
Discretionary Service Customers	**644,358**	641,239	639,820	644,031	702,604
Penetration as Percentage of Basic[2]	**78.8%**	78.2%	78.2%	79.1%	81.3%
Pay-TV Service Customers	**116,224**	112,813	113,614	116,484	108,626
Penetration as Percentage of Basic	**14.1%**	13.7%	13.8%	13.9%	12.4%
High-Speed Internet Service Customers[3]	**277,648**	239,608	198,609	161,999	99,048
Penetration as Percentage of Basic[2]	**37.7%**	33.4%	27.6%	22.5%	14.7%
Digital Terminals	**303,884**	240,071	183,087	144,950	105,292
Penetration as Percentage of Basic[2]	**37.7%**	29.8%	22.8%	18.4%	13.3%
Digital Customers	**255,289**	208,436	162,533	129,798	97,216
Digital Telephony Service	**1,448**	–	–	–	–

(1) Internet service customers who do not subscribe to other cable services and basic service customers.
(2) Calculated on the basis of the systems where the service is offered.
(3) The number of Internet customers has been restated to reflect the number of customers based on the billing dates, which are spread throughout the month, instead of the number of customers at the end of the fiscal year. This change produces a downward adjustment.

	Homes Passed	Basic Service		Basic Service
		Customers	% of Penetration[1]	Distribution by province as a %
Breakdown by Province				
Ontario	986,401	581,631	59.0	70.8
Québec	462,332	239,802	51.9	29.2
Total	1,448,733	821,433	56.7	100.0

(1) As percentage of homes passed.

Board of Directors

■▲◆ **Jan Peeters**
Montréal (Québec)
President and Chief Executive Officer
and Board Chair,
Olameter Inc.
Board Chair

■ **Henri Audet**, Eng., C.M., B.A., B.A.Sc., M.Sc., D.Sc.
Montréal (Québec)
Chairman Emeritus
Director

■ **Louis Audet**, Eng., M.B.A.
Westmount (Québec)
President and Chief Executive Officer
Director

◆ **Jacqueline L. Boutet**, C.M.
Montréal (Québec)
President,
Jacqueline L. Boutet Inc.
Director

● **William Press Cooper**, B.Sc., P.Eng., F.C.S.C.E.
Oakville (Ontario)
President and Chief Executive Officer,
Cooper Construction Limited
Director

▲◆ **Claude A. Garcia**, B.A., B.Com.
Montréal (Québec)
Corporate Director
Director

●▲ **Germaine Gibara**
Montréal (Québec)
President,
Avvio Management Inc.
Director

● **Harry A. King**, B.A., C.A.
Vancouver (British Columbia)
President,
Harking Investments Ltd.
Director

Henri P. Labelle, B. Arch., M.B.A.
Montréal (Québec)
Architect and Certified Arbitrator
Director

◆ **David McAusland**, B.C.L., LL.B.
Beaconsfield (Québec)
Executive Vice President,
Corporate Development
and Chief Legal Officer,
Alcan Inc.
Director

●▲ **Pierre Robitaille**, F.C.A., M.B.A.
Saint-Lambert (Québec)
Corporate Director and Business Advisor
Director

Legend:
■ Member of the Executive Committee
● Member of the Audit Committee
▲ Member of the Human Resources Committee
◆ Member of the Corporate Governance Committee

Corporate Management

Louis Audet
President and Chief Executive Officer

J. François Audet
Vice President,
Telecommunications

Denis Bélanger
Vice President,
Engineering and Development

Pierre Gagné
Vice President,
Finance and Chief Financial Officer

Gaston Germain
Vice President, Ontario

Jules Grenier
Vice President, Québec

Christian Jolivet
Chief Legal Officer and Secretary

Hélène Laurin
Vice President, Administration and Control

Yves Mayrand
Vice President, Corporate Affairs

Ron A. Perrotta
Vice President, Marketing

Louise St-Pierre
Vice President and Chief Information Officer

Operations

Head Office
5 Place Ville Marie
Suite 915
Montréal (Québec)
H3B 2G2
Tel.: (514) 874-2600
Fax: (514) 874-2625
www.cogeco.ca

Cable Ontario
950 Syscon Road
P.O. Box 5076 Station Main
Burlington (Ontario)
L7R 4S6
Tel.: (905) 333-5343
Fax: (905) 332-8426

Cable Québec
1630 6e Rue
Suite 200
Trois-Rivières (Québec)
G8Y 5B8
Tel.: (819) 379-2443
Fax: (819) 372-3318

Corporate Information

Annual Meeting
The Annual Shareholders Meeting will be held at 4 p.m. on Thursday, December 8, 2005, at the TSX Broadcast & Conference Centre, 130 King Street West, Toronto (Ontario).

Auditors
Deloitte & Touche LLP
1 Place Ville Marie
Suite 3000
Montréal (Québec)
H3B 4T9

Legal Counsel
Fraser Milner Casgrain LLP
1 First Canadian Place
P.O. Box 100
Toronto (Ontario)
M5X 1B2

1 Place Ville Marie
Suite 3900
Montréal (Québec)
H3B 4M7

Transfer Agent Second Secured Debentures
Computershare Trust Company of Canada

Transfer Agent Senior Secured Debentures and Senior Secured Notes
Natcan Trust Company

Quarter ends
November, February, May

Year end
August 31

Inquiries

The Annual Report, Annual Information Form and Quarterly Reports are available in the Investor Relations section of the cogeco.ca website or upon request by calling (514) 874-2600.

Des versions françaises du rapport annuel, de la notice annuelle et des rapports trimestriels sont disponibles à la section Relations avec les investisseurs du site Internet cogeco.ca ou sur demande au (514) 874-2600.

Investors and Analysts
For financial information about the Corporation, please contact the Department of Finance.

Shareholders
For any inquiries other than a change of address, financial information or a change of registration of shares, please contact the Legal Affairs Department of the Corporation.

Duplicate Communications
Some shareholders may receive more than one copy of publications such as Quarterly Reports and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise National Bank Trust.

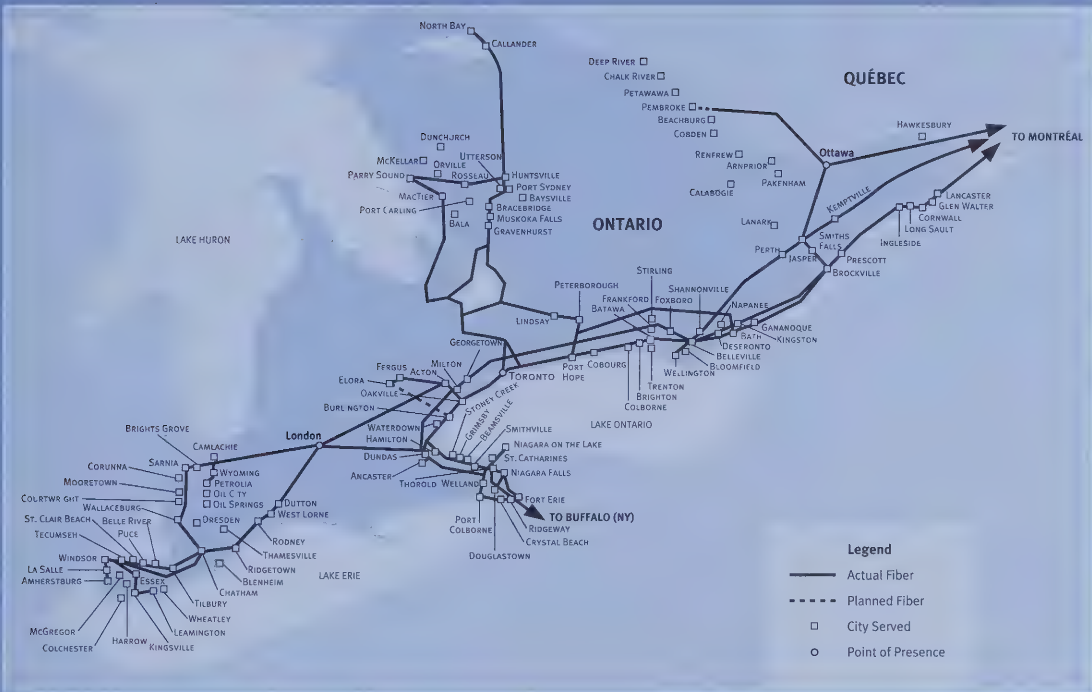
Whistle blowing procedures regarding accounting, internal accounting controls or auditing matters

Any employee of Cogeco Cable Inc. or of any of its subsidiaries with concerns regarding questionable accounting or auditing matters may submit a complaint on such concerns on a confidential basis, with protection from reprisals, to the Chief Legal Officer of the Corporation, or directly to the Board Chair where there is reason to believe that an organized offence has been authorized at a high level or that reprisals would be authorized at a high level. These complaints will be reviewed as to substance and materiality under the direction of the Audit Committee and the oversight of the Chief Legal Officer or the Board Chair as the case may be, the Internal Auditor or such other persons as the Audit Committee determines to be appropriate.

Ontario Inter-city Fiber Deployment

CABLE OPTIC NETWORK: 4,550 KM

OPTIC FIBER: 34,830 KM



Québec Inter-city Fiber Deployment

CABLE OPTIC NETWORK: 3,550 KM **OPTIC FIBER: 44,370 KM**

Captions :
Page 8—Laviolette Bridge: Robert Calvé, Trois-Rivières, Québec
Page 9— Niagara Falls: Joan West, Bainsville, Ontario

Design: www.bob.ca